CORE CURRICULUM

HARVARD BUSINESS PUBLISHING

Strategy

Ramon Casadesus-Masanell, Series Editor

READING + VIDEO

Executing Strategy

J. BRUCE HARRELD
HARVARD BUSINESS SCHOOL

8136 | Published: November 1, 2014

Table of Contents

1 Introduction 3

2 Essential Reading 4

2.1 Turning Strategy into Organizational Action 4

Formulation and Execution: Clarifying Their Relationship 4

Why Does Strategy So Often Fail? 5

2.2 Execution Requisites:
Organizational Ambidexterity and Dynamic Capabilities 8

Organizational Ambidexterity: Exploiting and Exploring in Parallel 9

Dynamic Capabilities: Adapting by Reconfiguring Resources 10

2.3 A Systemic Approach 10

Winning Hearts and Minds: The People Factor 11

Introducing the Congruence Model 11

Framing the Future 13

2.4 The Four Building Blocks of Congruence 14

Critical Tasks 14

Formal Organization: Metrics, Rewards, and Organizational Structure 16

Skills and Competencies 20

Culture 22

2.5 Leadership and Execution 25

Walking the Talk 26

Ambidextrous Leadership 26

3 Supplemental Reading 29

3.1 "Strategy Is Execution": Ambidexterity and Congruence at IBM 29

Benefits of the Approach 31

Three New Structures for Executing Growth Initiatives 31

3.2 Another Strategy Execution Framework:
The Balanced Scorecard–Based Strategy Management System 34

3.3 The Role of Culture in Execution: The NUMMI Miracle 36

4 Key Terms 39

5 For Further Reading 40

6 Endnotes 41

7 Index 44

This reading contains links to online video, denoted by the icon above. To access these exercises, you will need a broadband Internet connection. Verify that your browser meets the minimum technical requirements by visiting http://hbsp.harvard.edu/list/tech-specs.

J. Bruce Harreld, Senior Lecturer of Business Administration, Harvard Business School, developed this Core Reading with the assistance of writer Janice Koch.

Copyright © 2014 Harvard Business School Publishing Corporation

1 INTRODUCTION

Far more has been written about strategy formulation than about strategy execution. And yet most people would agree: Successful execution is where the payoff is. It is also, particularly over the long term, much harder to achieve.

But the relative dearth of material on execution is not all that surprising. A strategy is a series of decisions that constitute a plan. Execution is a series of actions that put the plan to the test. It's messy and involves many moving parts: orchestrating teams, resources, and structures (not all of them flexible or willing) to capture opportunities and achieve high performance, often at considerable risk. All kinds of unforeseen challenges arise. Standardizing a process for execution is next to impossible, because execution is particular to each organization's situation, capabilities, and environment.

Fortunately, strategy execution has in recent years captured more attention, in part because the performance pressures organizations face today are perhaps greater than ever—in a global economy and at a time of compressed business cycles, persistent economic volatility, and rapid and profound technological change. Moreover, there has been growing recognition of the relationship between strategy and innovation. Thought leaders such as Chan Kim and Renée Mauborgne (creators of Blue Ocean strategy) and Clayton Christensen (who has written about disruptive innovation) have shown that success in strategy execution, like species' evolutionary success, entails seeking previously unfilled niches. Change can be rapid and discontinuous; organizations must therefore be agile and primed to adapt.

Execution is as vital to established companies as it is to startups, whether new ventures or internal initiatives. And it is not the exclusive province of for-profit organizations. The mission of any nonprofit or public-sector organization is futile if the organization can't successfully execute its strategy.

Other readings in this Core Curriculum series focus on formulating strategy; here we deal with executing a new strategy. Of course an organization implements and executes strategy day to day; aligning the decisions and activities of the organization with *existing* strategy is an ongoing process. But executing a *major shift* in strategy is a particular kind of challenge because it requires organizational ***transformation***. Much of this reading focuses on that change effort.

This reading's position at the end of the Core Curriculum series on Strategy by no means suggests that execution is an end point. Instead, it is part of a cycle: The strategy is formulated, it is put into action, and along the way, as crucial new information emerges and circumstances (internal or external) change, adjustments will be inevitable. We use the term *strategy process* in this reading to refer to this continuous feedback loop.

We begin this reading by defining strategy execution and its importance, offering an integrated view of the strategy process. We then explore the key obstacles to execution and the reasons for failure. It's through these failures that we are able to understand the ingredients essential to strategy execution and the holistic nature of the strategy process. Execution relies on organizational alignment and the interplay of "soft" and "hard" factors—talent and culture, not just structure and processes.

An organization's long-term success also requires a balancing act. Leaders oversee and continually improve the existing core businesses (to thrive in the current environment) while nurturing new business initiatives that represent the sources of future competitive advantage.

There is no one framework for executing in a holistic way. In this reading we explore in detail one model—the congruence model. We chose this not only because it is proven (IBM

used it throughout its decade of transformation at the turn of the millennium), but also because it explicitly recognizes the role of culture, and places culture on a par with the other core elements of execution, such as formal organizational structure and skills and competencies. The first Supplemental Reading explores how IBM used the congruence model, along with dynamic capabilities and organizational ambidexterity, to execute the multistage, decadelong transformation that restored the firm's global market leadership.

The second Supplemental Reading is a summary of an alternative strategy execution framework, used by many organizations, which was developed by Robert Kaplan and David Norton, the creators of the Balanced Scorecard. The third Supplemental Reading is a case on New United Motors Manufacturing, Inc. (NUMMI), a joint venture between Toyota and General Motors, which illustrates the importance of culture change in strategy execution. In particular, it shows how powerful a lever culture can be in transforming performance from faltering to flourishing—and how rapidly that transformation can occur.

It's important to note that strategy execution is not formulaic. Context counts. What works in one industry may not in another; even among companies in the same industry, the levers of successful execution may differ. For this reason, case studies and examples are essential tools for exploring this subject.

2 ESSENTIAL READING

2.1 Turning Strategy into Organizational Action

What causes market leaders to lose their dominance? Why do some companies with histories of proven innovation decline and fade away? Why do organizations with surefire products or services never get off the ground?

Invariably, such failures boil down to a failure of strategy—more precisely, a failure to execute strategy effectively. Companies that manage to sustain success understand that strategy formulation and execution are two sides of the same coin, inextricably linked and wholly interdependent.

Formulation and Execution: Clarifying Their Relationship

Strategy formulation is the part of the strategy process that involves continually gathering insights about the industry and the market, weighing alternatives, and developing imperatives. The output is a *strategy:* an integrated set of choices that positions a firm to compete successfully in an industry and generate superior financial returns over the long run.

Strategy execution is the part of the process concerned with carrying out the strategy—turning the integrated set of choices into action. It involves continually aligning organizational tasks, structures, processes, and capabilities to sustain superior competitive performance. This continual alignment involves orchestrating existing capabilities—the organization's skills and competencies, as well as its culture—and developing new ones.

Strategy formulation is fundamentally a hypothesis. It is not until an organization actually starts carrying out a strategy that it begins to test its hypothesis. At that point, ideas developed in the conference room meet the harsh realities of the competitive marketplace.

What's crucial here is the interdependent and continual nature of both strategy formulation and execution. Organizations, after all, exist in a constantly evolving environment: changing competitive landscapes, advancing technologies, new business models and ways of competing, and changing customer needs—all of which are influenced by political, macroeconomic, and regulatory forces. Strategy as a process must therefore be one in which organizations are constantly sensing, responding to, and adapting to these changes as they both make the choices that constitute their strategy and turn those choices into action. A new strategy requires organizational change. In other words, strategy execution is really about change. You cannot take a new strategy and "plug" it into the old organization and expect it to work. A change in strategy means that leaders must consider all elements of the existing organization and determine what needs to be changed. And such change is rarely a matter of tinkering.

A shift in strategy is prompted by dissatisfaction with the status quo. Leaders identify a gap between current and desired performance. There are two types of gaps.

- ***Performance gap:*** a quantified shortfall between actual results and targeted results.
- ***Opportunity gap:*** a qualified assessment of the discrepancy between current results and those achievable by successfully pursuing a new opportunity—whether a new product, technology, service, or business model.

To close the gap, organizations must combine strategy formulation with execution—the actions that involve building the necessary capabilities and carrying out the initiatives that will deliver the desired results.

Why Does Strategy So Often Fail?

Strategy is often undermined by poor execution. Failure comes in many forms: from the high-stakes growth initiative that generates massive losses (or is shelved) to the long, slow decline of a company's core business through inertia.

In a *Fortune* magazine article from 1999, "Why CEOs Fail," Ram Charan and Geoffrey Colvin noted that "70% of all strategies fail to achieve their desired results and 30% fail to achieve anything at all." Since then, formal and informal surveys consistently show that failed execution, or execution that falls short of the mark, remains the norm, not the exception. An *Economist* survey of 276 senior operating executives found that 57% of firms had been unsuccessful at executing strategic initiatives over the previous three years. A survey of Chinese corporations reported in the "White Paper of Strategy Implementation of Chinese Corporations" found in 2006 that strategy implementation has become "the most significant management challenge" corporations face; indeed, 83% of respondents had failed to implement their strategy smoothly, and only 17% felt that they had a consistent strategy implementation process.[1]

The Conference Board's *CEO Challenge*, a survey of hundreds of CEOs from corporations worldwide, identified execution as the number one challenge facing executives for two years in a row (2009 and 2010). So, if executives know that execution is so vital, why is failure so common? There are several reasons, here distilled into two.

An Ineffective or Broken Strategy Process

Some companies do not "connect the dots": They believe that strategy formulation and strategy execution are separate processes conducted sequentially. Senior management first drafts the road map, and then the troops implement the plan. This idea of a top-down, command-and-control process ignores the iterations so essential for success. Treating strategy as a linear exercise makes it difficult to incorporate new information and insights into an existing plan. At the same time, carrying out the existing plan in linear fashion makes

managers adhere to a course of action even when evidence shows it is failing and the assumptions on which it was based were flawed.[2]

Some organizations misunderstand the rigors and requirements of strategy execution; for example, they relegate strategic reviews to an annual exercise—despite the fact that technology developments, customer needs, and competition don't adhere to any calendar. In a 2014 *Harvard Business Review* article, "The Big Lie of Strategic Planning," Roger Martin describes how traditional strategic planning has turned into a too comfortable exercise instead of a process of "making bets and hard choices."[3]

Others, frustrated by the rapid obsolescence of traditional strategic planning and the growing irrelevance of strategic planning departments, have given up on them because they are too removed from the front lines and from core operations. (For more on this, see Strategy Is Execution: Ambidexterity and Congruence at IBM in the Supplemental Reading section.) But companies must fill that vacuum. They cannot expect their operational executives, who are preoccupied with running the day-to-day business, to have the time and ability to engage in the reflection and analysis central to strategy development.[4]

In another article, "The Execution Trap," Martin compares a successful strategy process to a white-water river, where choices cascade from top to bottom. Leaders make broader, more abstract "upstream" decisions, while managers and employees downstream make choices appropriate for the situation at hand. Leaders set the general context for those downstream. And because in large organizations the cascade from top to bottom can be long, such things as structure and operating principles (including decision rights) as well as culture play a critical role.[5] Execution happens at the organization's intersections or interfaces. So the structures and ways of working must facilitate handoffs. This requires coordinating mechanisms—governance structures, cross-functional teams, initiative portfolio oversight, and so forth. Organizations can address customer needs only if market insights make their way into the R&D or product development groups; if service issues and flaws get fed back to the product and production teams; if marketing hears about dissatisfaction and has a way to mitigate reputational damage—the list goes on. It's up to leaders to connect these organizational synapses and to allocate resources appropriately, reconcile conflicting demands, and balance the tension between current operational needs and the businesses of the future.

A Focus on Maintaining the Status Quo

Although strategy execution involves change, many organizations ignore this, whether through hubris or complacency. They invest all their energy and resources in sustaining current success without recognizing that their success will almost certainly be challenged or disrupted, and that investing in future businesses should happen concurrently with managing current operations.

The very structures and processes that successful companies optimize to achieve efficiency and manage complexity, note Michael Tushman and Charles O'Reilly, also make change an expensive and difficult proposition. The success resulting from optimization paradoxically leads to a failure—an organization's inability to adapt to a changing environment. The result is "structural inertia, which in turn feeds cultural inertia."[6] ***Structural inertia***, the authors explain, is the "resistance to change rooted in the size, complexity, and interdependence in the organization's structures, systems, and formal processes." ***Cultural inertia*** encompasses the institutionalized learning and common expectations that "are manifest in the informal norms, values, social networks" and other aspects of culture over time. Here, too, the more successful an organization is, the more these attitudes are ingrained. Cultural inertia, according to Tushman and O'Reilly, is actually much more difficult for managers to overcome (**Figure 1**).

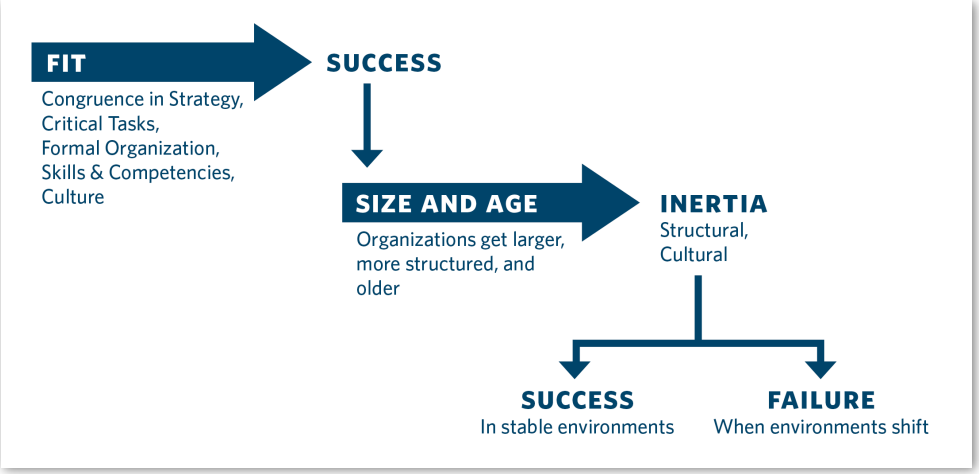
Both types of inertia interfere with strategy formulation and execution. Those who formulate strategy are often blindsided by an organization's earlier success and fail to

recognize fully the importance of subtle changes in customers' needs, competitors' actions, and new technologies. At the same time, leaders executing strategy often find that people are trapped by existing structures, processes, and cultural norms. Fighting these inertial traps is one of the key jobs of an organization's leaders (**Video 1**).

VIDEO 1 Transformational Change

Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2I3umvZ

FIGURE 1 Success Often Leads to Inertia



Source: Reprinted from *Winning Through Innovation* by Michael L. Tushman and Charles A. O'Reilly III, Harvard Business Review Press, Boston, MA, 2002, p. 29. Copyright © 2002 by the Harvard Business Publishing Corporation; all rights reserved.

The dynamic shifts in customer needs, technologies, and competitors' strategies require organizations to experiment continually with new business models, customer value propositions, and technologies. A singular focus on current businesses prevents many companies from successfully innovating for these shifts. Worse yet, some firms focus exclusively on the future—thus prematurely abandoning their core businesses, which generate most of their ongoing profits and cash flow. Kodak did this by investing so aggressively in digital technologies that Fuji was able to attack Kodak's analog film business and undermine Kodak's economic base.

"Some companies never see the threats," observe Tushman and O'Reilly, "or, more frequently, are unable to change quickly enough to avoid them." Among the long list they cite are Sears, which for years refused to view Walmart as a threat, and Bethlehem Steel (and other integrated steel manufacturers), which ignored the rise of mini-mills and Nucor, only to go bankrupt 20 years later.[7] Others include Blockbuster Video, which stood by while Netflix amassed market share, and Kodak. Although the latter developed many of the technologies underpinning digital photography, it did not anticipate the speed and scale of the market's shift to digital (**Video 2**).

VIDEO 2 Defending the Core

Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2pGGviS

Inertia isn't always to blame. Some companies do indeed recognize the need to evolve but struggle in developing and executing a clear strategy. In the mid-1990s R. R. Donnelley, the world's largest printing company, perceived the potential threat of digital printing to its core business. It launched an initiative to pursue this new opportunity, but the executive in charge

of it was never able to convince his peers that digital printing represented not only a threat to the core business but also a potentially major new opportunity. Executives insisted on viewing the future through the lens of past technology.

Few companies embody execution paralysis more than General Motors. (See the sidebar "General Motors: 'Our Seeming Inability to Execute.' ")

General Motors: "Our Seeming Inability to Execute"

Back in 1988, Elmer Johnson, an executive vice president at General Motors (and an outsider who had penetrated the top echelon), shook up the company with his now legendary 25-page memo. In the memo—effectively a manifesto—he diagnosed GM's major problem as its inability to execute. He depicted a company caught behind the curve in design technology, one that failed to manage itself as a truly global enterprise. Most of all, he saw GM as a company that repeatedly declared its commitment to revolutionary transformation without being able to achieve even incremental change.

Fundamentally, organizational and cultural issues were at the root of GM's problems. GM was bureaucratic, inflexible, and wholly consensus-driven. Debate was profoundly discouraged, and executives hated bad news. Top-ranking executives lacked technical expertise and shared an entitled "club" mentality. The centralized decision-making structure was the opposite of what was needed to compete successfully in the global marketplace of the late twentieth century.

Johnson implored his colleagues to marshal GM's vision, resources, technological investments, talent—and to be inspired by the company's storied history of innovation and quality. His plea, however, failed to ignite change, and he ended up resigning.

The rest of the story is well known. The company continued on its trajectory, ultimately accumulating billions of dollars in losses in the ensuing years. In June 2009, GM declared chapter 11 bankruptcy and became the subject of the fourth largest U.S. government bailout in history.

2.2 Execution Requisites: Organizational Ambidexterity and Dynamic Capabilities

> Darwin was right, neither strength nor intelligence guarantees survival. Only adaptation can do that, whether for firms or flora and fauna.
>
> —O'Reilly, Harreld, and Tushman, "Organizational Ambidexterity," *California Management Review*, Summer 2009

> Companies have to be very schizophrenic. On one hand, they have to maintain continuity of strategy. But they also have to be good at continuously improving.
>
> —Michael Porter

As we've described, long-term success for companies depends on their ability to adapt to a changing environment—to monitor and refresh their strategies as needed, and to execute them well.[8] Although they may disagree about the exact nature of adaptation, most thought leaders accept this Darwinian characterization of survival of the fittest as an apt analogy for business survival in a competitive world.

Organizational Ambidexterity: Exploiting and Exploring in Parallel

Adaptiveness requires organizations to have two capabilities—what Michael Porter casually referred to as being schizophrenic: the ability to ***exploit*** *existing resources and capabilities* and to ***explore*** *new spaces* by "reconfiguring existing resources and developing new capabilities."[9]

This balancing act between exploiting the present and exploring the future is what we call *organizational* ***ambidexterity****:* the ability of senior leaders simultaneously to manage the existing core businesses (maintaining stability, ensuring that products and services are reliable and consistent in quality, and overseeing incremental improvement) and to pursue new opportunities—specifically, nurturing experimentation and discontinuous change through the innovation streams. Exploiting—pursuing efficient production—not only boosts profitability but also frees resources for exploring. Ambidexterity is thus critical to sustaining competitive advantage and to the organization's enduring success.

It is also, not surprisingly, one of the most challenging aspects of leading—and one many companies struggle to accomplish. As Tushman and O'Reilly point out: "Short-run effectiveness can sow the seeds of organizational failure by hindering long-term adaptability. While flexibility, speed, innovation, and responsiveness are crucial as product classes evolve, so, too, are characteristics such as consistency, reliability, and efficiency. Too much of the former, and organizations may fail to capture the value of their early innovations. Too much of the latter, and firms may develop toxic levels of resistance and inertia."[10]

A company that only exploits will remain stuck in the present, as competition and markets change all around it. Consider Blackberry, a leader in cell-phone design, whose customers had near-evangelical zeal for the product but defected in droves when smartphones were introduced. Similarly, it took a decade for Kirin, the market share leader in the Japanese beer industry, to respond to Asahi's introduction of "dry beer." This phenomenon can affect many companies in an industry. Swiss watch engineers invented the quartz movement, a cheaper, more accurate alternative to analog movement. Yet the Swiss watch industry was so focused on the analog that it left the development of the new digital technology to the Japanese. Only after the Swiss suffered a dramatic loss of global market share and significant financial losses did they finally respond with the Swatch.

Conversely, a company that primarily explores won't last for long. Take the famous Danish toy maker Lego. After going through a stagnant period from 1993 to 1998, the company decided to reassess the marketplace—its customers and competition—and embark on a sweeping program of innovation. Some successes (largely one-off products, many of them tied to blockbuster movies such as the Harry Potter series) were mixed with big, expensive failures. Lego didn't monitor or analyze these investments deeply at the time, and all the exploration complicated Lego's manufacturing process. After enduring major losses in 2003, the company pulled back and refocused on its core products: long-standing crowd-pleasers that were also profitable.[11]

Strength and stability confer many benefits, and unrelenting change can paralyze an organization. And because no one can predict which innovation in an organization's new-idea pipeline will succeed, companies cannot forsake their bread-and-butter businesses. Hedging risks is critical, so companies need to balance their emergent initiatives with their mature businesses.

Exploiting and exploring strategic business units (SBUs) alike require the successful execution of different strategies. Most organizations have a portfolio of businesses with different strategic purposes, different time horizons, and appropriately different organizational models. The job of senior leaders in these organizations is to appropriately balance the portfolio financially and organizationally—and to ensure that the "exploiting" and the "exploring" businesses successfully execute their strategies.

Dynamic Capabilities: Adapting by Reconfiguring Resources

Competencies and capabilities obviously vary across business units. The exploiting units, those focused on mature products and technologies, will excel at efficiency, control, and reducing variance across their processes. Those that focus on exploration will excel at creativity and invention: for example, generating new ideas, understanding how to apply leading-edge technologies, being adept at finding new applications for existing solutions, thinking "outside the box," and being resourceful. With them, variance increases. As the market and business environments shift, managers may need to reallocate resources across the two types of units.[12]

That requires ***dynamic capabilities:*** the ability to adapt, integrate, and reconfigure organizational skills and resources to match changing environments in ways that are valuable to the customer but difficult for competitors to imitate. The idea of dynamic capabilities recognizes the evolving nature of markets and technologies—and the iterative nature of the strategy process.

In organizations that possess dynamic capabilities, leaders recognize that the capabilities and insights of businesses that exploit and explore can often inform and help each other in gaining market intelligence, supply chain knowledge, and customer information. Innovation teams, for instance, can leverage the expertise of mature operations and, conversely, the innovation side can share its insights, when appropriate, with established businesses.

For example, leaders might pluck engineers from various business units to form a new-initiative team that is charged with developing a prototype. Engineers from the mature business units will not only offer broad collective expertise and creative problem-solving abilities, but also practical knowledge—on such things as trustworthy suppliers, competitive intelligence, and which corners can be cut to deliver on an aggressive timetable. In contrast, a fulfillment team that created and implemented a new distribution model for a company's new Asia-Pacific business could be redeployed to help a successful mature business unit revamp its distribution process.

What does this mean for leaders? Senior management must fulfill two critical tasks.

- First, managers must be able to accurately sense changes in their competitive environment, including potential shifts in technology, competition, customers, and regulation.
- Second, they must be able to act on those opportunities and threats, to seize them by reconfiguring both tangible and intangible assets.

In other words, dynamic capabilities apply to formulating strategy as well as executing it.

2.3 A Systemic Approach

As we've noted, changes to strategy, whatever their cause, nearly always require changes to an organization. Organizational change touches every facet of an organization's operations—from its systems and structures to its people and processes. New tasks must be defined, new skills must be developed, and possibly even a new culture must be nurtured. Inattention to the requisite organizational capabilities often causes a promising strategy to deliver disappointing results.

Executing strategy thus calls for a holistic, systemic approach that addresses two fundamental requirements: the right *hardware* (the mechanical, structural, process aspects of strategy) and the right *software* (the actions related to the human element).

Clearly, the best hardware cannot work without the proper software. Without true management buy-in, a motivated and aligned workforce, and appropriate actions taken by leaders, even the best structures, resources, and processes cannot successfully launch, let alone sustain, a transformation. Worse, without these softer elements, change efforts can be sabotaged. Developing the hardware, though not easy, is usually more straightforward; it is well documented, less ambiguous, and more easily measured. Organizations tend to give the software side short shrift. Yet that may well be the most important requirement: Culture has been shown to be the most powerful control system in an organization.[13]

Winning Hearts and Minds: The People Factor

Organizations are, of course, systems made up of people. Failed transformations are generally those that ignored the fact that emotional responses (such as denial, resistance to change, political jockeying, and power struggles) will trump rational elements any day. But the people factor consists of far more than mere attitudes.

Organizations establish their context and culture in explicit and implicit (often inadvertent) ways—for example, from their organizational structure to how they allocate decision rights, and from the ways they measure performance to their incentive and reward systems. Leaders play a crucial role; if they don't "walk the talk," employees won't see any reason to do so.

Successful strategy execution thus requires leaders to meld the human side of change with the rational, mechanical steps. They need to win hearts as well as minds. People need to see a compelling reason for change and believe that it is feasible. Leaders must motivate people to accept change and the associated upheaval; foster a sense of common purpose; communicate changed roles, requirements, and expectations; sustain energy and momentum; and embed the rewards and incentives that will instill and ingrain the right behavior.

In his landmark *Harvard Business Review* article, "Leading Change: Why Transformation Efforts Fail," John Kotter noted that well over 50% of the companies he studied failed in transformation efforts at the very outset because they neglected to establish a sense of urgency. "Getting a transformation program started requires the aggressive cooperation of many individuals," he wrote. "Without motivation, people won't help, and the effort goes nowhere."[14]

History shows that organizations react more aggressively to threats than to opportunities. Indeed, Kotter also observed that when business results are good, the transformation effort may be harder to pull off because it's harder to convince people of the need for change. Bad performance—in particular, a crisis—can be more motivating. But by the time a crisis occurs, it is often too late. Leaders must therefore make an unimpeachable case that "the status quo seem[s] more dangerous than launching into the unknown."[15]

But great leaders and great organizations are able to instigate change even during periods of stellar performance. To do so, senior leaders must sense the future and disrupt the organization's state of comfort, reinforcing the notion that standing still is akin to a death sentence.

Introducing the Congruence Model

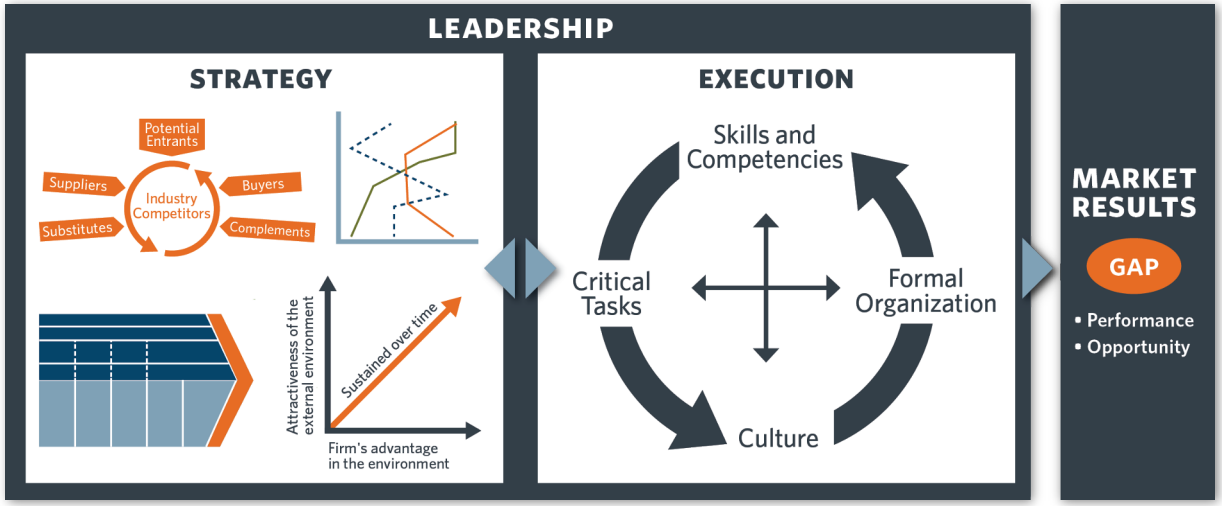
There's no one approach to strategy execution. Regardless of the model an organization chooses, what matters is being consistent and taking a holistic approach. The first step is

making an honest appraisal of current organizational capabilities—sensing weaknesses and taking appropriate actions to close the gap between current and required performance. The organization must address the hardware and the software and ensure that the strategy process is a continuous loop of learning and adaptation.

In this reading, we highlight the ***congruence*** model (**Figure 2**), a framework for aligning strategy and organization that was deployed at IBM, under its CEO Lou Gerstner, as part of the company's turnaround and transformation.[16] This model still serves as the backbone of IBM's strategy execution process as the company has continued to evolve and reinvent itself.

Again, this framework is particularly suited to a holistic approach to strategy because it deals explicitly with culture, skills and competencies, and leadership—not just issues of formal organization.

FIGURE 2 The Congruence Model



Source: Adapted and reprinted from Harvard Business School, "Executing Strategy," HBS No. 809-126. This case was prepared by J. Bruce Harreld, Copyright © 2009 by the President and Fellows of Harvard College; all rights reserved. Case exhibit originally adapted from Michael L. Tushman and Charles A. Reilly III, *Winning Through Innovation* (Boston: Harvard Business Review Press, 2002).

What exactly do we mean by *congruence?* Congruence is alignment. In the context of the model, congruence refers to the alignment between strategy formulation and execution, and between and among the four organizational elements (or building blocks) of strategy execution. All these relationships must be in harmony. The four organizational elements are:

The hardware

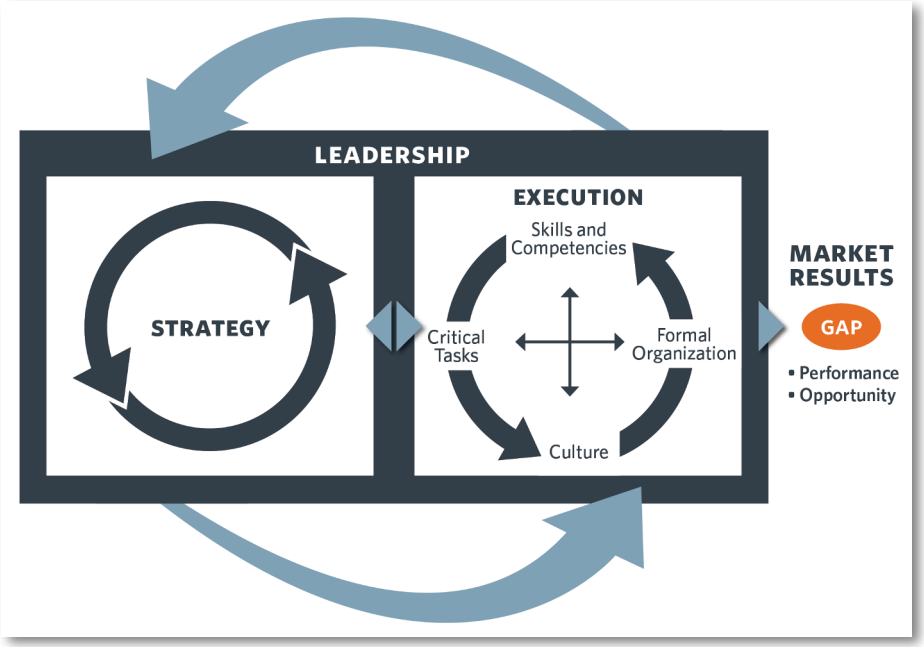
1. Critical tasks
2. The formal organization (metrics, rewards, organizational structure, and processes)

The software

3. Skills and competencies
4. Culture

Congruence enables an organization to deliver on the promise or the design of its business model. As we see in **Figures 2** and **3,** leadership is the overarching requirement, the catalyst that activates the organizational elements. **Figure 3** shows the elements of congruence within the strategy process—the feedback loop of formulation and execution.

FIGURE 3 Alignment



Source: "Dynamic Capabilities at IBM: Driving Strategy into Action," *California Management Review* 49, no. 4 by J. Bruce Harreld, Charles A. O'Reilly III, and Michael L. Tushman. Copyright © 2007 UC Berkeley; UCLA; UC Irvine; Graduate Schools of Business Administration. Reproduced with permission of UC Berkeley; UCLA; UC Irvine; Graduate Schools of Business Administration via Copyright Clearance Center.

When any organizational element is weak, or when there is a lack of alignment between them, a *performance gap* can result. For example, if rewards or measurements are not well aligned with the market's view of a business, a gap will almost certainly result, often in the form of customer dissatisfaction or poor relative stock performance.

An *opportunity gap* results when an organization anticipates a new business model, technology, or innovation but is not prepared or able to pursue it. These gaps, when made explicit to the organization, often become the "burning platforms" leaders use to make the case for change.

Performance at the business-unit and enterprise level is a function of having the right strategy along with congruence among the four organizational elements. Successful strategy execution depends critically on this alignment. Whenever a strategy is changed, the elements will need to be realigned. As we've noted, leaders sometimes overlook this.

At IBM, the congruence model forced line managers to be explicit in diagnosing the degree of organizational alignment as well as what was needed to improve it, and it served as a check and balance, ensuring that these changes were made by the top management team to allow execution of the new strategy.[17]

Framing the Future

As we've noted, the strategy process is a continual one, but at some point in it, strategy execution must be preceded by strategy formulation. That is, management must define the unit's (or organization's) business, how it intends to compete, and who its target customers are. It also must develop a set of goals and expectations against which performance can be measured. And it must define the organization's vision for the future—for instance, creating the most trusted company in the organic foods marketplace, or being the most coveted luxury fashion brand, or providing the fastest, cheapest air cargo transportation in the company's geographic market, or helping at-risk youth become healthy members of society through

educational, vocational, and recreational programs. A clear vision facilitates decision making at every level. It frees management from relying on a rules-based method of leading and from having to institute formal controls to guide behavior. Simply put, a clear vision helps people understand what they must do.[18]

Once the strategy, objectives, and vision are articulated, leaders can identify the performance gaps and opportunity gaps. They can then take stock of the critical tasks, formal organizational elements, skills and competencies, and culture needed to fill those gaps and fulfill the strategy.

It's worth emphasizing that in tackling performance and opportunity gaps, leaders should be mindful that there's no one right answer. It's useful to have in place processes by which managers develop multiple workable solutions—a sort of "contingency tool kit." No intervention is perfect; moreover, the future is by definition unforeseen. Surprises, internal and external, spring up. That's why iterativeness in strategy is a necessity.

Now, let's take a deeper look at the building blocks of congruence.

2.4 The Four Building Blocks of Congruence

Critical Tasks

Critical tasks are the first organizational element necessary for strategy execution. These are the core tasks and supporting business processes that fulfill the requirements of the organization's business model. They include everything connected with producing the product or service (R&D, procurement, manufacturing), along with its price and terms, decisions about distribution, marketing communications, fulfillment, and so on.

Critical tasks might include everything from bolstering an existing process—say, overhauling a customer relationship management system to track richer data, such as customer profitability—to building a retail network in a new overseas market. They might include establishing a center for collaborating on new product concepts with customers or a program to outsource manufacturing. They might include seeking cost and production efficiencies or implementing a foreign currency program to protect against currency exchange fluctuations associated with new global business operations.

Consider the critical tasks the Italian motorcycle maker Ducati introduced in its manufacturing and R&D processes to support its 1996 turnaround strategy of increasing the amount customers would be willing to pay for the company's products while simultaneously reducing costs.[19] Ducati increased customers' ***willingness to pay*** by focusing on a distinctive niche of high-performance products while expanding investment in important intangible aspects such as marketing, events, and R&D. The company reduced costs—without affecting willingness to pay—through supplier consolidation, increased outsourcing, and greater component standardization.

Ducati needed to ensure that its high-end designs could be manufactured cost effectively without sacrificing quality and distinction. The company did so by first standardizing components across its models. In this way, the relatively small volume of components for each model was aggregated, which gave the company more leverage with suppliers. Ducati also expanded outsourcing. Because of its standardized design and the company's "platform" manufacturing approach (based on components and subcomponents), Ducati was able to achieve major manufacturing efficiencies—among the top in the industry—despite low production volumes.

Thus, the three critical tasks called for in Ducati's strategy and essential for successful execution were standardizing components, centralizing manufacturing, and expanding outsourcing.

Schindler, the Swiss elevator company, offers another example of critical tasks associated with a shift in strategy. In the mid-1990s, Schindler was once again ready to enter the India market after a failed attempt 40 years earlier. Thanks to economic liberalization, rapid urbanization, and tourism, construction in India was booming, and the elevator industry showed great potential for growth. After many years of working with joint-venture partners, Schindler decided its foray into India would depend on establishing a wholly-owned subsidiary. This strategy focused on two key elements: having a standardized product offering and sourcing many product components locally to avoid India's high import tariffs. At the time, 75% of the Indian market was dominated by four players, one of which (Otis) claimed a 50% market share.

Although the Indian market was price-sensitive, buyers considered service important. Service is one of the four last phases of an elevator's life cycle (the others are repair, modernization, and replacement), which together account for 80% of profits.

Silvio Napoli, the young executive charged with overseeing the company's India operation, developed a business plan: Sell a focused line of standardized products rather than try to offer a full line. The critical tasks Napoli identified were considerably different from those required in the company's long-established European operations. They included:

- Recruiting and building a local management team that understood and bought into the new Indian strategy.
- Developing a constructive, cooperative relationship with Schindler's European plants to secure timely and reasonably priced critical components. Gaining the support of the European plants was critical because they viewed sourcing any components from local (Indian) suppliers as a threat to their livelihood.
- Recruiting, qualifying, and training a network of suppliers for noncritical components. Unlike other foreign elevator companies, which established their own local manufacturing facilities, Schindler would outsource production of 85% of the components of its main model to local suppliers. Some installation work would also be outsourced.
- Ensuring that suppliers adhered to the company's quality-focused product-creation process.
- Securing testing and approval of the product for the Indian market from experts in the company's European plants. Without the blessing of the European plant managers, the production process could become corrupted. (This task also links to the culture element, which we'll explore later.)
- Building a local sales team to sell standardized elevators.
- Establishing a relationship with the logistics unit of an international transport company to outsource warehousing, transportation, and delivery.
- Creating a local service and maintenance team that would follow the same processes and quality standards used throughout the company's operations.

Within 30 months of operation, Napoli and his deputies managed to reach key sales targets and achieve, among other goals, an average four-hour maximum response time for service calls.[20]

One of the most important activities related to critical tasks is analyzing the interrelationships and interdependencies among them—that is, between functional areas, groups, and steps

along the value chain. Leaders need to understand how much these areas and steps must be (and realistically can be) coordinated and integrated. They must be aware of weak links and vulnerabilities that can create bottlenecks or, worse, impede achievement of major goals.

At Schindler India, Napoli and his team had to guarantee that the essential components manufactured in Europe were delivered to the India assembly operation on time, so as not to delay manufacturing and delivery commitments. They needed to ensure that their logistics outsourcer could adhere to its delivery commitments for high-priority commercial customers such as office buildings and shopping malls. And they needed a sufficient number of trained repair technicians who could respond to service calls within the company's contractually promised time frame.

Formal Organization: Metrics, Rewards, and Organizational Structure

Formal organization refers to the structures, mechanisms, measurements, and systems through which an organization's critical tasks are performed. It includes the organizational structure—functional areas, business units, and divisions; the people responsible for these areas; and the lines of reporting. It also includes cross-functional teams and governance committees. In addition, formal organization encompasses the measures used to track institutional and individual employee performance and the rewards and incentive systems by which managers direct and motivate individuals and groups as they execute critical tasks. Because some elements of the formal organization evolve organically (over time, as strategies, administrations, and an organization itself change), they might be inadequate for (or even counterproductive to) supporting execution of a new strategy. Ideally, the elements of formal organization combine to enable and support execution, and they integrate with one another to facilitate the accomplishment of critical tasks.

When evaluating the fitness of a formal organization for supporting strategy, executives all too often start with the organizational structure and end up becoming consumed with it at the expense of other, more crucial areas. Instead, the first elements they should tackle are metrics and rewards: What do we need to measure so we know whether we're on track? How should we tie compensation and individual performance measurement to these metrics?

The reason for this sequence is simple: Organizations are human institutions. You don't move people to action by changing structures. As rational a starting point as reorganization may seem, it doesn't have the urgency and power of changing incentives. Moreover, reorganization as a first step can create organizational confusion and thus be demoralizing. Many a failed execution grew out of a transformation that was little more than a reshuffling of the organizational chart without the appropriate realignment of metrics, milestones, and rewards.

In a study published in "The Secrets to Successful Strategy Execution," Booz & Company consultants examined the actions that mattered most in enabling strategy implementation.[21] They surveyed thousands of senior managers and executives, asking them to rank the relative influence of 17 organizational traits in four broad categories: restructuring, motivating, improving information flows, and clarifying decision rights. Structure, it turns out, was the least important category.

So the best way to trigger desired action is to establish the measures that matter and set performance expectations (targets), and then create incentives and rewards that will reinforce them. It is these elements, after all, that signal strategic priorities and drive behavior. The necessity of a new, more appropriate organizational structure often becomes apparent to one and all once these issues are resolved.

Metrics and Milestones

A critical error large companies often make is using the same metrics for a new strategy that they used for an old one. New strategies require a major assessment of the metrics and milestones that best apply to the new critical tasks. For a mature business, metrics such as unit volume, revenue, and earnings relative to P&L plans are vital. But with a new venture, financial metrics are not merely inappropriate—at some stages, they are not even available. New businesses often can't be benchmarked reliably, and leaders might stymie innovation if they attempt to apply the same performance expectations that they use for stable, mature operations.[22]

For an emerging business, metrics should, first and foremost, track progress in developing the value proposition—in other words, in understanding customer problems and learning how to solve them. Such metrics might, for example, include the number of interactions per month between senior management and customers, the team's success in rapidly creating prototypes, the results of market tests, the nature and level of customer complaints, and the business's ability to resolve them. Others might assess the magnitude of the market opportunity or track the organization's progress in developing the skills and capabilities that will advance the business to its next milestone.[23] ***Milestones*** represent decision points; they are "softer" and are often related to learning: Have we acquired a piece of knowledge yet? Have we tested it? In addition, companies should create milestones for each strategic initiative that is relevant for each stage of development.

For example, in 1999 IBM launched a program to reignite organic growth by launching several new businesses. Unlike the results in the company's traditional, mature businesses, the results of the new initiatives were not tracked by financial ***performance metrics***. Instead, leaders developed specific milestones for each new business. Is there a clear strategy? What is the customer problem? Can it be solved? Has it been successfully prototyped? How should it be priced? Such milestones are, in fact, critical steps in turning a new idea into a scalable commercial operation. Until these early project-based milestones are achieved, investment in development and staffing is kept to a minimum.

For established operations, existing metrics may be worthwhile, but they should be evaluated with a fresh eye when there's a change in strategy. Take, for example, a synthetic fiber company that established a customer co-creation center to foster innovative product ideas—part of its shift from an operational excellence to a product innovation strategy. The company needed metrics tracking customer involvement in the co-creation center's activities and the nature of the ideas generated.

Companies often have an abundance of metrics tracking operational activities that yield little or no insight into how well they're doing against strategic goals. It's not unusual for companies to discover that they lack any metrics that reflect progress on strategic objectives.

Measures must be linked to actions—and not just at the management level. Customer metrics, for instance, need to be intelligible and applicable to frontline employees.[24] That often means keeping their number streamlined (to avoid metrics overload, which can dilute the strategic focus) and understanding the effect on goals of the activities being measured. After ensuring the validity of the data, companies can then systematically analyze areas indicating performance gaps (that is, those needing attention). They can perform statistical analysis to determine the effect of individual measures on the goal at hand.

For example, a major Canadian retail bank acquired a smaller bank known for its outstanding customer service. The acquiring bank defined as a strategic goal extending the superior service throughout the enterprise and wanted to ensure that it had in place metrics with explicit links to overall customer and financial objectives. To test the relevance of its existing customer satisfaction metrics, it analyzed the effect of those aspects of customer service it had been tracking (through surveys) on customer satisfaction and branch

profitability. Statistical analysis revealed, for example, that a 1% increase in measures of "comfortable banking" (the percentage of customers who felt that the teller treated them as though their business was appreciated) led to a 1.7% increase in customer satisfaction. That, in turn, translated into a 0.4% increase in branch profitability. A 1% increase in measures tracking speed of service, however, led to a mere 0.8% jump in satisfaction, which led to a 0.2% increase in branch profitability. With this kind of weighted data, management could understand the relative value of boosting performance in each aspect of customer service. A new customer satisfaction tracking report was used to convey this information to branch-level employees so that they could focus on maximizing customer satisfaction and, in turn, branch profitability.[25]

Rewards

Are the compensation and rewards systems sending the right message? Do they promote behaviors and attitudes that advance the strategy? Do they properly reflect accountabilities and contributions? A company bent on rapid innovation must be sure to reward risk taking—and neither disincentivize nor punish the failure of good-faith, well-performed efforts.

When Jamie Dimon took over as CEO of troubled Bank One, in 2000, one of his first major moves was to overhaul the bank's compensation and incentives system. Bank One was at the time an amalgam of acquisitions spanning decades (22 from 1993 to 1998). Its more recent acquisitions (including the credit card giant First USA) and its merger with First Chicago NBD (which itself had made nine acquisitions from 1987 to 1998) were poorly integrated. Morale was low, and in the year preceding Dimon's arrival, four top executives left. Not surprisingly, the system was a tangle of legacy policies, rife with generous deals and lavish perks. It was costly and wasteful and did nothing to reward performance and a sense of common purpose. If anything, it prevented the company from becoming unified.[26]

Dimon wanted to integrate the bank and improve financial performance. His strategy was to establish a performance-based culture, one that prized accountability. So he eliminated most entitlements and perks. New P&Ls enabled performance-based compensation. New incentive plans balanced individual and collective accountability. Indeed, all senior team members felt it was appropriate to forgo bonuses in 2000, given the bank's negative performance.[27]

As part of his broader aim to establish a meritocracy, Dimon expanded stock option awards, but he lengthened the vesting period from two to five years "to encourage the most benefits to go to our highest performers who stay to make Bank One a great company." In 2001 the bank gave 40,000 lower-paid employees each a $300 grant of company stock for their 401(k) plans. At the time, more than one-third of those employees did not have a 401(k) and did not own stock.[28]

In addition to driving the right behavior, compensation and rewards should also be designed so they do not undermine other strategic goals or create conflicts of interest. For example, if fostering long-term, profitable customer relationships is critical to the strategy, the commission structure should not be based solely on short-term sales figures; it might include customer retention and long-term customer profitability.

If cross-business cooperation and collaboration are critical for a strategy, it's important that compensation and rewards aren't based solely on contributions to unit success. An exclusive linkage to unit success would discourage managers from contributing ideas that might best be developed by another unit or area, rather than advancing the strategy and leading to enterprise success. Thus, finding the right balance between individual unit and overall organizational performance is crucial. In general, the more important cross-unit collaboration is, the more rewards should be weighted toward overall organizational performance.

Organizational Structure

Does an organizational structure—hierarchies, reporting lines, governance mechanisms—support or undercut a strategy? Suppose a company's strategic goal is to serve global customers. A structure that reinforces country-specific loyalties—without a way to coordinate among regions—will undermine this goal. A company that considers customer responsiveness and speed an important strategic goal will stumble if it has layer on layer of management hierarchy or rigid job specs that favor protocol over initiative taking and problem resolution. In addition, companies sometimes continue to operate with a structure that has long since outlived its usefulness—and may in fact represent a major obstacle to strategy execution.

A ***matrix structure***—one organized around products as well as functions or geographies (or both)—will undoubtedly be a hindrance to a company with ambitions to make rapid inroads in new markets. But it might well be the most appropriate one for a company in which global and local service and resources must be carefully coordinated and balanced.

Consider the case of Ogilvy & Mather Worldwide in the early 1990s. Its new CEO, Charlotte Beers, was shepherding the legendary but troubled global advertising agency back to health through a strategy focused on building each client's brand. This new strategy called for realigning organizational structures, since the firm's overseas entities were set up to foster geographic competition rather than cooperation.

The company was divided into four global regions; outside North America, presidents of local agencies (offices) reported to country presidents, who reported to regional chairmen. Beers did not want to centralize control or relationships, but she saw that existing organizational structures would work against the company's global branding strategy. Multinational companies represented a significant chunk of the agency's revenue stream. Clients had been growing increasingly interested in getting the best combination of global efficiencies and local execution, but the firm wasn't set up to serve them that way. The needs of multinational clients were coordinated by worldwide management supervisors, who served as liaisons between clients' main and local offices and O&M agencies. O&M's local agencies depended on local accounts, not multinationals, for their bread-and-butter earnings. International account managers were often at the mercy of O&M's local agencies. This organizational structure was an obstacle in every way—not only to developing the best ideas, but also to delivering the best service.

Beers created Worldwide Client Services (WCS), a structure that would "tap the best brains from anywhere in the world for each account." It also bolstered the role and stature of members of multinational account teams. Previously, they had been regarded by local agencies as staff who had no real authority. They would now have line responsibility for their accounts—including profits, growth, and the evaluation of local agencies. They were made "dual citizens," reporting to local office presidents and WCS supervisors. WCS brand teams were also structured to mirror clients' organizations.

Ogilvy & Mather won more large multinational accounts but faced new challenges with the WCS structure in light of the firm's new emphasis on centralized brand campaigns. Conflicts erupted as WCS pressured local agencies to favor accounts that had high global development potential over local ones. Although complete centralization may have seemed easy, Beers knew a one-size-fits-all structure wasn't right. She saw the value of local agencies—creatively, culturally, and in nurturing and managing client relationships. Local flexibility with global coordination was most important.

The solution: keeping the matrix structure and using the remuneration and reward system to determine the balance between central and local. Ogilvy & Mather realigned fee structures between WCS and the local agencies. The firm also aligned its executive incentive and compensation system with the brand stewardship and WCS priorities. For instance, discretionary executive bonus funds were redirected from geographic regions to WCS. In the

past, only agency, country, and regional heads were eligible for bonuses.[29] Ogilvy & Mather's approach is a good example of the alignment of structure and a rewards system. It served the company well: Beers returned Ogilvy & Mather to prominence, and her successor, Shelly Lazarus, continued to build long-term relationships with key clients.

Skills and Competencies

For effective strategy execution, employees and managers at all levels must have the right skills to get the job done. An organization also needs to have competencies—whether in a process (R&D, supply chain, marketing), marketplace (industry, product sector, consumer, or B2B), or geography. Once identified, can these skills and capabilities be filled internally? How will the organization acquire or develop them? These same questions apply to external partners.

Consider how three organizations identified the individual and institutional competencies that their critical tasks called for.

Schindler India: Building the Management Team for a New Overseas Subsidiary

Silvio Napoli, the young executive in charge of entering the Indian market, handpicked his local senior management team on the basis of the specific skill sets called for by the critical tasks. His strategy—selling a standardized product offering and sourcing many manufacturing components locally—called for such critical tasks as recruiting and training a network of suppliers for noncritical components and building a local sales force. And because the India operation was a startup, every team member needed to have the right attitude and energy, not merely industry and functional expertise.[30]

He selected his managing director knowing that he was hiring his eventual replacement as head of the India subsidiary. This person was a native of India who had handled construction projects for some of the country's largest hotels. He therefore had two essential competencies: knowledge about how to build an organization from scratch and a deep understanding of the customer perspective. He was older than Napoli and attuned to power and relationships, which would be useful in managing people. Equally useful was his extensive knowledge of the country and culture, knowledge that Napoli, a new European transplant, lacked.

For field operations (sales, installation, maintenance), Napoli hired a professional with nine years' experience at Otis (the biggest elevator company in India) whose in-depth technical experience complemented the management team's skills. Similarly, the new general manager of engineering had spent more than two decades at Otis. His extensive engineering skills made him an able and credible match for his European counterparts at company headquarters.

In terms of institutional competence, according to Napoli's strategy, outsourcing manufacturing was essential. But so was maintaining quality and Schindler's reputation for reliability. Napoli thus determined that only noncritical components (the bulk of each model's parts) and assembly would be outsourced. With the help of engineers at headquarters and on his own team, Napoli then assessed local candidate firms on the basis of their ability to deliver on time and to specifications.

Simmons Bedding Company: Adapting the Sales Team to a New Environment

In 2005, in the wake of a major crisis—a product introduction that quickly flopped—executives at this leading mattress maker realized that the market research for the high-stakes, innovative HealthSmart mattress had been insufficient. The company had been woefully out of touch with the marketplace and end-customer needs. Even before the rollout of the doomed product, the retail industry had changed, as nationally franchised multiproduct mattress

dealers represented a major portion of the market. To better serve this retail environment—and compete more ably with the other manufacturers—Simmons redesigned its sales force, dividing it into two teams. One would serve the headquarters of the large retail accounts. Its more than 40 salespeople were knowledgeable about merchandising and advertising, and they could advise retailers on implementing new ideas in their stores. The second team was geographically based, assigned to serve local stores. This approach also enabled the company to streamline the sales force by more than 60 people while better serving each segment's needs.[31]

GE: Developing Growth Leaders

When Jeff Immelt took over as CEO of GE (General Electric), in 2001, he believed it was time to turn away from the growth-by-acquisition strategy that had served his predecessor, Jack Welch, so well. Immelt felt the company needed to grow organically instead. The new strategy had many implications for individual and organizational competencies.

For instance, GE was investing heavily in R&D, which called for hiring scores of engineers. In addition, to boost marketing and technological knowledge, the company reversed some of its HR policies: It slowed job rotations and, to accelerate building its talent pool, began recruiting from the outside. Even more challenging than building its store of technical talent was developing capabilities in the management team. Some members lacked entrepreneurial skills, others general leadership abilities. The HR group conducted a study of critical traits for leading innovative, entrepreneurial-minded companies. GE's famed leadership education center in Crotonville, New York, then created a program to cultivate these traits in top managers. GE also adjusted evaluation and reward systems to encourage risk taking (which the existing systems had discouraged).[32]

Deploying Talent: Further Considerations

- When should technical or industry expertise be subordinate to other attributes—such as leadership skills, resourcefulness, and an aptitude for collaboration or networking? How close a match must there be between capabilities and responsibilities, especially in managerial positions? In sales, for instance, when should industry or product experience come after other attributes—such as energy, enthusiasm, and the ability to learn?
- Clearly, the answers to those questions are highly dependent on an individual organization and its particular challenges and goals. But many successful strategy-execution stories have proven that industry, technical, or functional expertise is often less crucial than personal attributes such as drive, the ability to mobilize and inspire people and teams, resourcefulness, problem-solving ability, integrity, and leadership qualities.
- Who should be in charge of executing critical tasks? When it's about exploring—whether a companywide growth initiative or an SBU dedicated to an innovation—organizations often choose a young, ambitious, up-and-coming manager, thinking that the critical task will be a good development opportunity. This logic presumes that failure would not be a major risk to the organization. The other common choice is a staff executive with extensive experience in a functional area but who hasn't had responsibility for an entire business. Such choices should be off-limits—they are actually risky.
- Running a new venture is completely different from managing an established one. Experienced general managers have relationships, know the internal culture, can figure out how to make something work, and have the confidence to be decisive and the wherewithal to alter course if necessary. Their people skills are strong, and they are able to look at problems from multiple angles.[33]

- Which comes first, determining the capabilities for the critical tasks or securing good people? Identifying who is available should be a secondary consideration. First, figure out what skills and capabilities are needed to perform the critical tasks, and then identify the right people (whether they're available internally or must be hired from the outside). In most cases, those who are available are not company "stars" and are therefore less desirable.

Culture

An organization's culture is defined by its collective behaviors, attitudes, and actions. It is shaped by the other elements of the congruence model, but it is the single most powerful element, exerting greater influence over the others and ultimately over the success of execution (**Video 3**). More than any other element of an organization, culture can torpedo strategy execution. The legendary management thinker Peter Drucker once said, "Culture eats strategy for breakfast"; his observation is quoted so often that is has become a cliché.

VIDEO 3 The Importance of Culture

Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2uoAwER

There are two elements to culture: the general work atmosphere and degree of employee engagement (the level of workforce morale and motivation) and the more organization-specific element of "how we do things around here." Is decision making bureaucratic or decentralized? Do people take risks or are they risk-averse? Are collaboration and cooperation encouraged, or is the organization siloed? Do departments and people view themselves as being in competition for organizational resources or as compatriots with a common cause?

In recent years, culture has been attracting growing attention in the executive suite and for good reason. The role of culture in strategy execution is hardly incidental. Leaders increasingly recognize that a dysfunctional or inappropriate culture is at the root of many failed transformations, whether new-strategy implementations, postmerger integrations, or major process-improvement efforts. Even those who understand the importance of culture struggle with changing it.

As Michael Tushman and Charles O'Reilly note, "In stable environments, culture is a big element of success. But when facing discontinuous change, that very culture can become a barrier to success."[34] Among the many examples they note are two icons: IBM in the 1990s, as it advanced toward financial crisis (just before Lou Gerstner was appointed CEO); and Sears, which watched Walmart ascend and capture its customer base yet was unable to adapt and respond.

There is perhaps no better illustration of the power of culture than the story of how the U.S. Navy adopted continuous-aim gunfire at the turn of the twentieth century. At the time, only 121 of 9,500 shots fired by the navy hit their target. Yet the U.S. Navy had nothing to be embarrassed about; it was one of the world's elite military organizations and had just won the Spanish-American War. Leaders accepted inaccuracy as a given in naval warfare.

A young American naval officer learned of a new technique used by a British admiral that increased the hit rate by more than 3,000%. Convinced that the U.S. Navy should—and would—adopt this innovative technique, Lieutenant William S. Sims sent reports to navy officials in Washington, D.C., with reams of supporting data. He got no response. Undeterred, Sims continued to send more reports with more data to more officials. Although he grew more insistent, he could not elicit interest. Eventually, Sims's proposal was dismissed after a perfunctory test on dry ground that confirmed the navy's initial skepticism.

In a last-ditch effort, Sims sent his case directly to President Theodore Roosevelt, an ex-secretary of the navy and former Rough Rider (the only cavalry regiment that fought in the

Spanish-American War). Roosevelt was immediately sold on the idea. He appointed Sims inspector of target practice and mandated the use of continuous-aim gunfire in the navy.

As groundbreaking as the gunfire innovation was, it would never have seen the light of day had the president not intervened. Sims had completely underestimated the power of naval culture. With their status-quo mind-set, navy leaders saw no need for innovation because they saw no problem that needed solving. The navy was hierarchical and proud. Sims's challenges to authority and his increasing stridency bordered on insubordination. Moreover, his innovation posed a risk to existing battle strategy and the power structure on board ship, because the gunnery officer's expertise would threaten the primacy of navigational skills—and even leadership in battle.[35]

As powerful as culture is, culture change is neither mysterious nor necessarily onerous. In fact, difficulties often arise because executives give it short shrift. They may be convinced of the need for change, but they neglect to make the case compellingly and consistently to the rest of the organization. Often, they don't realize that culture change requires the same discipline and relentlessness as any business-process change program. And some leaders forgo culture change efforts because they perceive them as inevitably slow—too slow to effect a turnaround or strategy implementation, where speed is critical. Nothing could be further from the truth. Culture can be changed quickly. Moreover, it is often the critical component of successful strategy execution. This is powerfully demonstrated in the case of NUMMI. (See The Role of Culture in Execution: The NUMMI Miracle, in the Supplemental Reading section.)

A Critical Control System

Culture is shaped by an array of internal forces, from formal policies and incentive systems to informal social protocols, the working environment, and the examples leaders set through their own behavior. Culture is therefore a critical control system; as such, the organization's culture must align with its strategy.

Leaders must deal with the culture of the existing organization and workforce and not just imagine the one they would like to create. A healthy and appropriate organizational culture will promote—and reward—the effective execution of critical tasks. In contrast, an unhealthy one can impede—even sink—an organization's success.

So what *should* the culture be, given the strategy? Often, the existing culture, if sufficiently energized, is already poised to accomplish the critical tasks. Leaders must ask themselves: Will the norms of behavior, the informal communications network, and the way power is distributed fuel the accomplishment of the critical tasks? Are there aspects of the current culture that would hinder the execution of these tasks? What new behaviors are needed to deliver on the value proposition?

A high appetite for risk taking would probably be essential to the strategy of a design firm, an entertainment company, or a venture capital firm but would be entirely inappropriate for a nuclear utility, construction firm, or health-care delivery system. More important, though, is the idea that a uniform culture may not be enough. Any company that recognizes the need to exploit (optimize mature businesses) and explore (innovate new businesses) also sees the need for two different, often opposing cultures.

Suppose a division embarks on a growth initiative that will require boldness, in design as well as in decision making. This division has considerable technical prowess, but only in stable markets. Its highly risk-averse culture makes it inexperienced with chancy new ventures in unproven markets. It will take a significant shift in culture to get the designers and team leaders out of their play-it-safe mode.[36]

A company that puts product development at the forefront of its strategy will want to provide a work environment that stimulates creativity, values experimentation, and rewards

the development of new ideas with commercial potential. For instance, it wouldn't categorically punish failure; doing so would only thwart the very risk taking that new growth initiatives and new businesses require. It would instead encourage people to learn from their mistakes and reward ideas that make it past the early stages.

A bank that aims to be more responsive to local customers might need to decentralize some decision making to give frontline managers greater latitude and discretion. Such a culture can be fostered in different ways, by changes to other parts of the congruence model. Changes to formal organization, for instance, can lead to culture change. The bank can flatten the hierarchy, alter lines of reporting, or modify roles and accountabilities. It can also change performance metrics and incentives (such as tracking the frequency of problem resolution by tellers and rewarding such behavior). The bank can also influence culture by focusing on skills and competencies—for example, promoting and hiring individuals who demonstrate initiative, sensitivity to customer satisfaction, and problem-solving ability.

Simmons Bedding Company offers a compelling illustration of the power of culture in creating a cohesive workforce and rebounding rapidly from a company crisis to achieve high performance.

Charles Eitel, who served as CEO from 2000 to 2008, had long been a big believer in the role of culture in organizational performance. When he arrived at Simmons, morale throughout the company's geographically dispersed plants was low. Most plants viewed themselves in competition with one another. Eitel embarked on a strategy to turn around the company's flagging financial performance by dramatically improving manufacturing productivity, product quality, and worker morale—the last through offsite and onsite programs for team building and individual empowerment.

Culture change was especially important given the nature of the company's workforce—largely blue collar, generally mistrustful of management, and cynical about organizational goals (which, in manufacturing over the previous two decades, had often translated into layoffs). Eitel believed that by nurturing people, leaders foster the desire for excellence. The workforce would become committed and capable of meeting the changing demands of the market.

Eitel had previously had great success with an offsite program (informally called "ropes") involving physical challenges that encourage people to overcome fear and build trust in their team members. At more than $7 million, his comprehensive program was a hard sell to the company's owners. Nonetheless, he felt the program was so essential that most employees should go through it.

Despite some cynicism in the ranks, even the most command-and-control plant manager at the worst performing plant did an about-face after completing the course. He and his team even created a video for other Simmons plants about their experience. Over time, the company offered bonuses and incentives to encourage further training, and for the first time, managers were given a small stake in the company. A new HR director who believed culture is a pillar of strategy changed the department's focus from administrative concerns to cultural stewardship. New HR programs further supported individual and team learning: One based 25% of variable compensation on team performance; another fostered team and individual skills through course modules on everything from safety, quality, and cost to cross-business cooperation, behavior, and customer and supplier relationships.

Simmons earned many benefits from its long-term investment in building a culture of employee trust and collaboration, including making *Fortune*'s "100 best companies to work for" two years running (2004 and 2005). Perhaps the most important payoff came in the wake of the company's disastrous product rollout in 2005. Many executives believed the emphasis on learning and teamwork gave people the resilience, resourcefulness, and confidence to recover quickly from crisis. The proof is in the numbers: Within the first year after the

debacle, net sales and EBITDA increased, the company exceeded its zero waste targets, HR costs declined, and product quality, safety, and on-time delivery improved.[37]

Strategy Execution and Change Management: The Eight Critical Success Factors

Strategy execution is about change. So organizations that ignore the cultural aspects of change management will almost certainly fail at strategy execution. In his seminal 1995 *Harvard Business Review* article, "Leading Change: Why Transformation Efforts Fail" (a preview of his 1996 book, *Leading Change*), John Kotter, the preeminent change management authority, identified eight success factors critical for any transformation effort, including strategy execution. Some factors are more overtly related to motivating and governing, but all relate to creating a culture that embraces change.

Establish a sense of urgency. The vast majority of managers must be convinced that maintaining the status quo is riskier than venturing into the unknown.

Form a powerful guiding coalition. Its members should be powerful leaders, all of whom are committed to the cause.

Create a vision. People need a coherent, straightforward vision to guide them.

Communicate the vision. As with any successful promotional campaign, the message needs to be communicated often, in different ways and through different channels. The guiding coalition must also set an example by behaving in a way that's consistent with the vision.

Empower others to act on the vision. This includes eliminating obstacles—systems and structures, as well powerful people who resist change. It also entails putting incentives in place that encourage thinking (and acting) outside the box.

Plan for and create short-term wins. Early wins must be visible. Leaders must publicly praise the employees who contributed to them.

Consolidate improvements and produce more change. Early wins boost credibility and solidify employees' faith. Leaders can proceed to make the needed changes in systems, structures, and policies; hire and promote those who can implement; and add projects and change agents.

Institutionalize new approaches. Leaders can prove that the new behaviors led to success. They can put in place leadership and talent-development programs and succession plans that conform to the new ways.

Source: John P. Kotter, "Leading Change: Why Transformation Efforts Fail," *Harvard Business Review* 73, no. 2 (March–April 1995): 59–67.

2.5 Leadership and Execution

> Actively managing organizational cultures that can handle incremental and discontinuous change is perhaps the most demanding aspect of management of strategic innovation and change.
>
> —Tushman and O'Reilly, *Winning Through Innovation*

Effective strategic leaders build an organization that continually and rapidly adapts and innovates. It may be uncommon for existing leaders of an organization to "manage the revolution," but that is what happens in successful firms. Great leaders understand that their organizations can't stand still; they recognize their critical role in provoking change.

To be effective, leaders must

- Guide their organization in resolving strategic issues and exploring opportunities, in commissioning efforts to gain new insights, and in setting new directions
- Clearly identify performance and opportunity gaps
- Ascertain and communicate the strategic significance of market change
- Clearly articulate new strategic imperatives so that everyone understands the strategic game plan and his or her role

Leaders apply the building blocks of congruence, managing and reinforcing their interactions. In fact, this is the vital role of any leader: aligning decisions and actions to the elements of the congruence model in order to execute strategy. In this way, leadership can make or break execution.

Walking the Talk

Much has been written on leadership. But when it comes to leadership in strategy execution, the practice is not rocket science. In reality, it is so straightforward as to be almost mundane. It turns out that many small actions reinforce or obstruct progress toward a new strategic direction. They make all the difference in whether the organization accepts and embraces it or not.

Nothing occurs if leaders don't take specific interventions and actions. Senior leaders must hold themselves accountable. Everything leaders do and say must emphasize the strategic priorities. If they do not walk the talk, they cannot expect others to change.

Yet leaders often pass the responsibility of overseeing action to other people. Of course, when that happens, transformation is impossible. Leaders must change their own behavior—what they do, what they focus on, where they spend their time. Their behavior models the behavior they seek in others and helps promote the execution effort.

What tools do leaders have at their disposal? The answer is not profound. Leaders must think about the questions they ask, how they start meetings, what they say in meetings, and the words they use to establish priorities. If you have told your team, "Our number one goal is improving quality," then every meeting should start with a discussion on quality improvement: What does the latest data indicate about our quality performance? What do customer complaints look like this month? How does our quality this month stack up against our key competitor's? Consistent follow-up is another tool. If you ask for something and neglect to follow up, people eventually begin to ignore your requests. Consider Jamie Dimon's simple technique. He carries an index card in his pocket. When he asks someone a question, he pulls it out, writes down the answer, and always follows up.[38]

Even where a leader chooses to locate his or her office is an important tool. At Bank One, Dimon decided against the luxurious corner office, instead opting for an office in the center of an outside row, next to a busy conference room. He wanted to be in the thick of things, and people could see that he was physically in the midst of activity—that he was physically involved in the transformation. He did not see this as a symbolic act; it was, in his view, the right thing to do.[39]

Ambidextrous Leadership

Many businesses are made up of a portfolio of strategic business units; each management team therefore needs its own execution model.

Senior leaders, like organizations, must be ambidextrous. "Great leaders navigate the tension between new innovations and core products from the C-suite," observed the authors

of "The Ambidextrous CEO," a 2011 *Harvard Business Review* article. "They do not leave this in the hands of middle managers." It's up to the CEO and his or her team to maintain "the tension between the demands of innovation units and the core business at the top of the organization." They must "maintain multiple and often conflicting strategic agendas."[40] With these, of course, they must create associated sets of critical tasks—and possibly even different cultures.

Furthermore, as we've noted, leaders must be careful not to impose the same rigid metrics and "software" on every business unit—or apply the same ones used for mature operations to those for emerging businesses and innovation streams. If they do, something will suffer.

At times, leaders will be in exploiting mode, concentrating on improving the established, mature businesses. In this mode, the key execution question is: Are we under control? If not, what do we need to do about it? Disciplined, control-oriented "hardware"—the structure, processes, and systems, along with the right skills and competencies—is critical. So is a healthy and appropriate culture. Any time an executive asks a question and doesn't get an answer, he or she should be worried.

In contrast, in the exploring mode, the strategy is not immediately evident; it is still percolating. Discipline and control will smother learning and creativity. Whenever someone has an answer to a question, a leader should be wary—the only way to get answers is through experimentation and experience.

The challenge for leaders in a multiportfolio company is in finding the yin and yang across businesses—in particular, between the mature, established ones and the growth initiatives. This balance must be struck through the design of the congruence-model building blocks. They should be aligned in such a way as to nurture growth throughout the enterprise. In this way, leaders optimize short-term performance while building for the long term.

Balancing Exploit and Explore: The Hybrid Locomotive at GE

The story of GE's Hybrid locomotive is a potent example of the role leadership plays in managing the tension between exploration and exploitation.[41]

The Hybrid is a line of diesel locomotives, called the Evolution Series, designed to meet EPA emission standards for locomotives that took effect in 2005. It was one of GE's 35 Imagination Breakthroughs (IBs)—growth projects with the potential to generate $100 million in new business within two to three years. IBs were at the heart of CEO Jeff Immelt's organic growth strategy. Immelt's intense focus on their progress forced his top team not only to change how they allocated time and money but also to extend their performance horizon from a few quarters to five years out.

Already in the works before IBs were created, the Hybrid faced technical challenges and market resistance. The transportation group's head, John Dineen, and those reporting directly to him—locomotive division general manager Brett BeGole and marketing VP Pierre Comte—had deep reservations about whether the technology would work. The battery technology so central to the Hybrid's design was too costly to make the engine economically viable. Team members felt the project lacked the necessary funding and technical resources to make the project work within the original milestones. They were worried about putting the division's short-term performance at risk.

Yet Immelt was committed to the Hybrid. He felt it was promising; it was the technology of the future, and it was aligned with GE's goal of developing environmentally responsive innovations.

At a critical strategy meeting with Immelt, Comte raised these obstacles. He requested more funding and even proposed delaying the project. Immelt, however, not only insisted that the project go forward but also forced Comte to agree to deliver a working prototype in eight

months. The aggressive timetable infuriated BeGole, who was upset not only about the funding squeeze but also about the lack of qualified engineers to meet the new commitment.

Dineen allowed the tension between his two deputies to brew, sensing that there was more at issue than just delivering a new product. To BeGole he framed the dilemma in an entirely fresh context: The reason that the locomotive division's current lineup was so solid and its financial performance so sound, he pointed out, was because of the investments made—and risks taken—by BeGole's predecessor. What legacy would BeGole leave *his* successor? The question stunned BeGole, who until that point had been singularly focused on delivering short-term results.

The Hybrid team went back to work, brainstorming additional funding sources and mapping an aggressive sales campaign that could succeed at the required pricing levels. But sales volumes for the Hybrid couldn't reduce costs enough. Team members had to find a way to make the economics of the battery work. They began thinking outside the box: What if the battery had a wider market? What if it could generate revenue on its own?

In the end, this solution won leaders' support. GE launched a new unit to build batteries for diverse forms of transportation—ships, airplanes, and cars, in addition to trains—which now made the Hybrid economically viable. The working prototype was built on time, the team learned a great deal about the underlying economics of the product, and it helped develop a new revenue source for GE in the bargain.

Dineen, taking Immelt's lead, exerted his own pressures on his team to deal creatively with time and budget constraints. Both Immelt and Dineen used meetings, personal persuasion, and coaching—and constraints—to allow issues to ripen, to force thinking and reflection that would spur problem solving. Had team members been given budget relief, they would likely have never developed this solution. The real push came with forcing BeGole to recognize that he enjoyed his safe P&L thanks to the risks taken by his predecessor. Risk taking, he reminded BeGole, is part of a manager's job.

Centralized versus Decentralized?

Leadership also entails another balancing act: determining what degree of centralization is appropriate for the organization. The conventional answer to the centralization versus decentralization question is that once an organization hits a certain size, it should be decentralized. That's fallacious. For years, IBM decentralized—to an extreme extent. It took a crisis and new leadership to realize that one of the things customers valued most about the company was its centralized delivery of solutions around the globe.

But solving the centralization-versus-decentralization puzzle is not so simple. Executives need to delve into the subtleties of the exploit and explore modes and ask, "Might there be elements of the organization that should be centralized to improve efficiency or effectiveness?" They must consider which activities, processes, and functions should be harmonized. What are the things that customers value, that give the company its strategic differentiation? Should fulfillment be centralized? At a company like IBM, which sells different products to the same customers, a harmonized order-entry and billing system might be preferable; that way, the customer doesn't get 30 different bills from the same vendor. Does it make sense to have a centralized legal system that serves the company's multiple locations? At GE, for instance, where the businesses and the customer bases are very different, it makes more sense to keep them separate.

This question also touches on another practice: the extent to which new ventures should be segregated from established operations. The conventional wisdom has been that segregating emerging businesses (by creating ***Skunk Works***, for instance) is the best way to help them germinate. It's easier, so the thinking goes, to free them from the performance pressures, metrics, prevailing culture, and constraints of a mature business.

But innovation experts have challenged this notion. Segregation can deprive a new venture of vast, highly developed internal expertise and resources that can actually help a new business take off. The innovation experts Vijay Govindarajan and Chris Trimble refer to these collective assets—the optimized processes and operations of the mature business—as the enterprise's "performance engine."[42] Startups unaffiliated with an existing company have no choice; they must build these capabilities from scratch. But at established enterprises, tapping assets such as R&D, market research capabilities, customer knowledge, and relationships can vastly streamline the timetable and resources for a new business.

An important element of leadership is figuring out how best to leverage expertise, knowledge, and assets of the performance engine for innovations and new businesses—how to harmonize and align the exploit and explore sides for greatest strategic advantage.

The leader's job is not to find simple answers; it's to find the right answers. It may be harder to connect these dots, but that is the leader's job. It is what he or she is paid to do. Simply put, strategy needs to be set by articulating an enduring, overarching reason for the organization's existence. Then, at each turn, the leadership team must realign the execution and organizational model to deliver on it. Most organizations stay stuck in the past. Great leaders see the future and hold their organization accountable for dealing with it.

Winning takes more than having a great strategy. It takes executing it.

3 SUPPLEMENTAL READING

3.1 "Strategy Is Execution": Ambidexterity and Congruence at IBM

The experience of IBM in its decade of transformation offers a cogent picture of a large organization's battle to restore its health and market leadership by redefining and executing strategy. Since IBM's near-death experience in the early 1990s, company leaders have realigned the organization through three phases of change, carrying it from crisis to unification to renewed growth. IBM's story also illustrates the importance of dynamic capabilities and organizational ambidexterity—key traits that enabled the company to undergo serial transformation throughout the past 20 years.[43]

In 1990 IBM was not only the world leader in its industry but also the world's second most profitable company ($6 billion in net income, based on $69 billion in revenue). IBM's future appeared secure.[44] This was the company that introduced the system 360, the first family of computers based on the integrated semiconductor chip. This was the company that, among other things, developed one of the first computer languages (FORTRAN) and invented the hard disk and the floppy disk and a precursor to the automated teller machine. The IBM PC (released in 1981) was the most successful information technology (IT) launch of its time.

But structural problems belied the company's rosy financial picture—and reared up far faster and more ferociously than leaders expected. By the first quarter of 1991, the company was showing major losses; between 1991 and 1993, IBM lost a staggering $16 billion. After avoiding layoffs for its entire seven-decade existence, the company laid off 125,000 people in 1993. Quickly the world was declaring this once "most admired" company on earth a "dinosaur." Major criticisms included its being "blinded by hubris, out of touch with its customers, and distracted by internal turf battles," as Applegate and her colleagues observed in

the case "IBM's Decade of Transformation: Turnaround to Growth."[45] When CEO Lou Gertsner (an industry outsider) stepped in, in 1993, observers thought the company was doomed to break up.

What was ailing IBM? There were essentially three problems.

1. *A cost structure that was way out of line.* The shift from leasing computers to selling them (in 1988–1989) artificially boosted revenue, but it was much like a sudden jolt of sugar into the bloodstream. It accelerated profits in a one- to two-year period, but managers failed to realize the ephemeral nature of the spike. The company embarked on a spending and hiring spree. Expenses skyrocketed; the reckoning quickly ensued.
2. *A company strategically out of touch with a changing marketplace.* The company was so internally focused that it ignored customer satisfaction. This was Gerstner's initial realization—and his cause célèbre. In addition, IBM was ignoring two major shifts in computing: the huge architectural shift from mainframe computing to client servers, and from proprietary to open software standards.
3. *Unfettered growth, without discipline or direction.* IBM had more than 20 divisions, each run as its own fiefdom with its own general ledger systems. The company produced 5,000 hardware products and 20,000 software products, and it had different designs for components that performed the same function in different products. Basically, divisions were selling fundamentally the same products to the same customers. Duplication of processes was widespread; IBM's own IT management was rife with redundancy; there were 125 data centers and 128 chief information officers. So divisionalized was the company that it was virtually unmanageable. To move a manager from one division to another was almost as complicated as hiring an outsider, as it required renegotiating benefits and surmounting multiple hurdles.

The company was awash in hierarchies and bureaucracy. It practiced consensus decision making; creative tensions were suppressed, and debate was discouraged. This only reinforced executives' insulation from marketplace realities.

Gerstner, the new CEO, summed up IBM's troubles: "The company didn't lack for smart, talented people. Its problems weren't fundamentally technical in nature. It had file drawers full of winning strategies. Yet the company was frozen in place. . . . The fundamental issue in my view is execution. Strategy is execution."[46]

Gerstner's exhaustive personal campaign to understand customers yielded a consistent message: Clients valued IBM for its ability to integrate and create solutions and for its global presence. Gerstner led the company in a new direction: from being product-based to being solutions- and services-oriented, integrating systems to solve customers' business problems. The transformation depended on a radical shift in the company's approach to strategy. Under Gerstner's stewardship, IBM embarked on a transformation that unfolded in three phases.

Phase one involved getting the fiscal house in order. Even before strategy could be fixed, the financial hemorrhaging had to stop. A new CFO with experience in fiscal crises was brought in. He built a ruthlessly disciplined finance and control team that benchmarked every cost. Within two years, he and the executive team had stemmed the crisis and stabilized the company.

In the second phase, leaders turned to strategy, reviewing it at the division as well as the enterprise level. Most critical was re-creating one company out of what had become a jumble of disjointed units with overlapping and redundant processes, products, components, and customers. The executive team zeroed in on six or seven key processes that hindered IBM's ability to deliver a consistent, global experience to clients, and then identified the new skills that would be required.

Collaboration would be crucial to the success of the new "One IBM." The company conducted training programs, converted to a common HR system, and eliminated siloed practices such as transfer pricing across divisions. Divisions began sharing technology plans and working toward product integration, as they recognized that the real customer proposition had become ease of use and interoperability.

Phase three involved returning the company to organic growth. It began in the fall of 1999, by which time the company had achieved financial stability, steady revenue growth, and unity. It was precipitated by the recognition of the company's focus on the present—specifically by Gerstner's discovery that a promising new business initiative had been quietly discontinued because of short-term cost cutting.

Although Gerstner focused on restoring IBM's strength and working toward a core strategy focused on integrated customer solutions, it wasn't until 1999 that he turned his attention to transforming how strategy was developed and executed. Until then, the company did what most large corporations do: monitor developments, occasionally launch targeted projects, but otherwise deal with strategy as an annual process. Strategic planners developed papers in what was more an academic exercise than a blueprint for action.

Gerstner, irritated by the irrelevance he saw in these papers—and incensed by the ease with which promising growth initiatives could be killed—set about instituting a disciplined approach to developing and implementing strategy. The approach not only addressed the realities and complexities of the company's business but also involved the general managers in sensing their environment and tapping opportunities. Though existing businesses enjoyed performance improvements, innovation was at risk because it remained within their silos. Moreover, no formalized, disciplined process existed to foster and govern new business ideas.

The result was the IBM Business Leadership Model, which integrates the processes of developing strategic insight (to identify opportunities and gaps) with strategic execution (to align people, structure, culture, and processes).

Benefits of the Approach

IBM's new Business Leadership Model—the congruence model—accomplished several major goals.

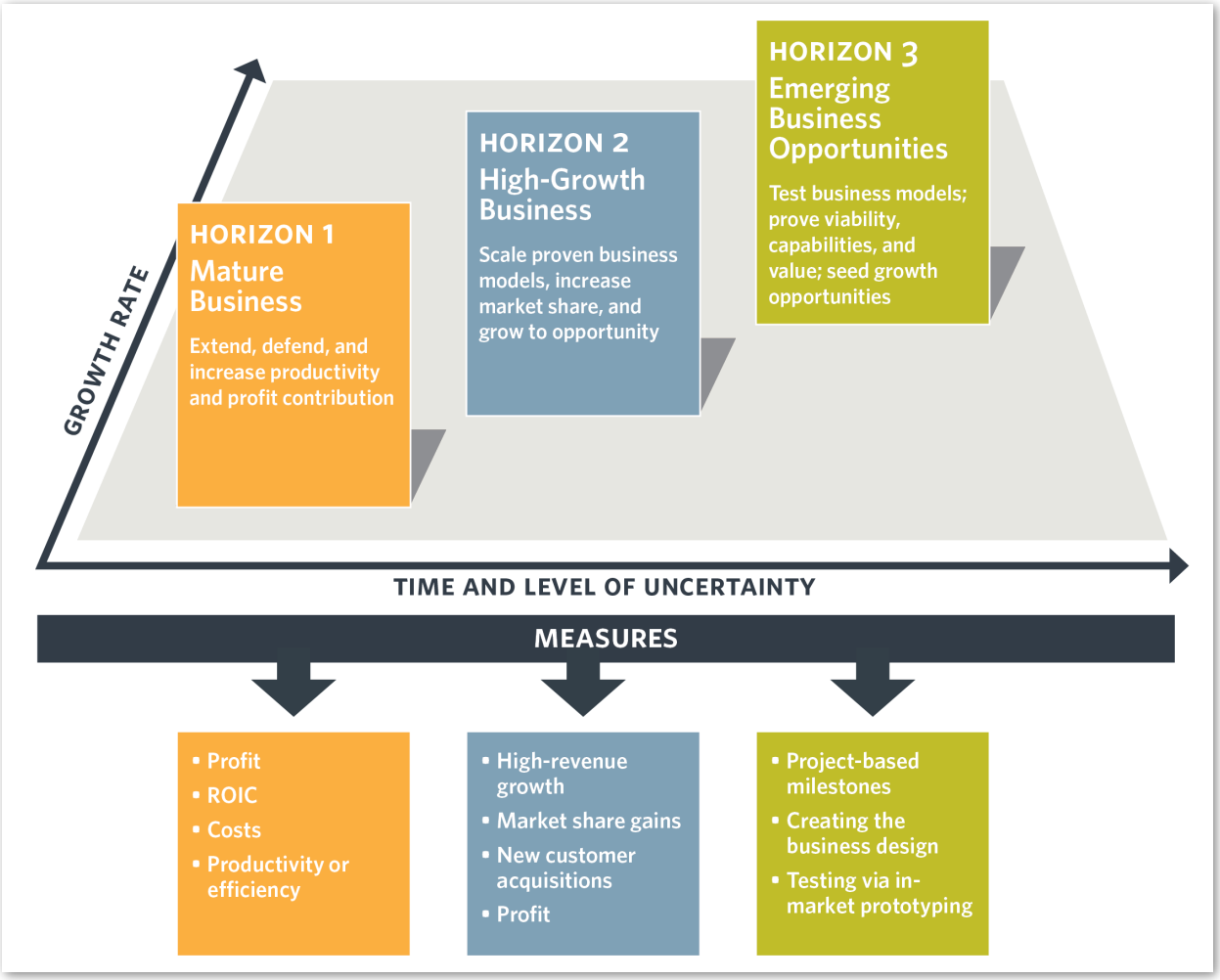
- It moved the company away from the annual, top-down, us-versus-them approach to strategy. It put strategy making at the business-unit level, in the hands of line managers, who best understood their marketplace.
- It emphasized that strategy isn't about beating the competition; it's about understanding clients' needs and removing barriers to helping them.
- It shifted the strategy culture from an academic one to an action-oriented one while improving operational managers' strategy skills. Today, two-thirds of the strategy "organization" consists of successful general managers who serve on the team for 18 to 30 months.[47]
- It built in the flexibility required to self-adjust to moderate change.

Three New Structures for Executing Growth Initiatives

To inject discipline into the strategy execution process, IBM created a new approach to analyzing its portfolio. It classified the company's businesses according to three horizon categories: mature, high-growth, and emerging business opportunities (EBOs). Leaders recognized that EBOs have different needs and cultures from those of mature, established businesses, and so they had to be guided by different principles. They also had to be managed

and measured differently, especially since these new businesses might cannibalize existing offerings (**Figure 4**). This recognition led to three new structures: a formal mechanism to develop and manage EBOs that would drive significant new revenue growth, strategic leadership forums, and dedicated funding for new initiatives.

FIGURE 4 Three Business Horizons



Source: Copyright © 2005 Mehrdad Baghai, Steve Coley, and David White, *The Alchemy of Growth: Practical Insights for Building the Enduring Enterprise*. Reprinted by permission of Basic Books, a member of the Perseus Books Group via Copyright Clearance Center.

EBOs

Clear qualifying criteria were established: Notably, EBOs had to define the market size, have the potential to generate more than $1 billion in three to five years, and show a need for cross-business cooperation and resources.

EBOs had their own processes, incentives, and structures. They had monthly performance reviews, senior-level sponsors, and their own set of project-based milestones rather than traditional review criteria.

The corporate executive committee would organize EBOs (offering corporate guidance and oversight), but keep EBOs' authority and accountability within the operating divisions. This would enable successful EBOs to transition smoothly within their eventual business homes,

avoiding the centralization that had previously thwarted IBM's strategic growth. If EBOs needed cross-business unit cooperation, the executive committee could make that happen.

Over time, IBM honed the EBO discipline. Of 18 original EBOs, 5 hit the $1 billion mark rapidly; by 2006, Life Sciences had become a $5 billion business.

Strategic Leadership Forums

These three-and-a-half-day team workshops address specific performance or opportunity gaps. Teams gather to problem-solve—looking at the gap challenge, reexamining strategy, analyzing causes, and devising action plans. The teams include hands-on managers as well as members of the strategy group. In addition, members of the company's Global Executive and Organizational Capability group participate in order to help foster a candid dialogue that links strategic insight to execution.

Funding

IBM established funding for new initiatives, thus protecting them from business units' budgets. It's a common problem: Companies often reallocate funds originally designated for new initiatives to existing businesses. IBM's new funding mechanisms were created to avoid this problem. Funding was also designed so that it could be available for any new initiatives that cropped up during the year. Often, such ideas miss out on funding from the traditional annual budgeting process simply because they don't occur according to the schedule.

Results

In 1993, services at IBM constituted 27% of revenues, while software was nonexistent. By 2001—just eight years later—services and software represented 58% of revenues. Market capitalization exploded, from $30 billion to $173 billion. By 2007, company revenues hit $98 billion.

Since 2002, Samuel Palmisano, Gerstner's successor, and again since 2012, Virginia Rometty, Palmisano's successor, have continued to shepherd IBM in its service- and software-oriented direction, shifting from conventional silos to an integrated structure focused on creating solutions for customers. IBM's strategy has evolved to continually assist clients in solving their most pressing technical and analytical problems. This philosophy has led IBM from meat slicers 90 years ago, to weight scales 80 years ago, to census counting in the 1940s, to PCs, to Solutions for a Small Planet, to the Smarter Planet initiative.

Less than 2% of companies survive to celebrate their 40th birthday. IBM's continual focus on clients' needs and the requisite evolution of its strategy partially explains the company's longevity (over 100 years). More important, with each strategic shift IBM managed to realign its organizational model to successfully execute the renewed strategy. This has resulted in innovating the cash register business and then selling it to NCR; inventing the hard-disk drive and selling it to Hitachi after the business commoditized; building the PC and then selling it to Lenovo; selling its display business; and divesting its Intel-based server business. This continual focus on clients' constantly shifting needs has allowed IBM to simultaneously evolve its portfolio, capabilities, and culture.

3.2 Another Strategy Execution Framework: The Balanced Scorecard–Based Strategy Management System

In 1992, Robert Kaplan and David Norton ushered in a new era of performance measurement and management when they introduced the Balanced Scorecard (BSC). This revolutionary tool was based on the idea that financial performance is just one part of the larger picture of organizational performance. In measuring the performance of people, technology, and processes, an organization needs to use leading, not lagging, indicators—thereby enabling it to track (and correct) performance proactively. Over the years, the Balanced Scorecard has evolved from a performance measurement system to a performance management system, and ultimately into the basis for a strategy-management system that links strategy formulation and execution (**Video 4**).

VIDEO 4 The Balanced Scorecard

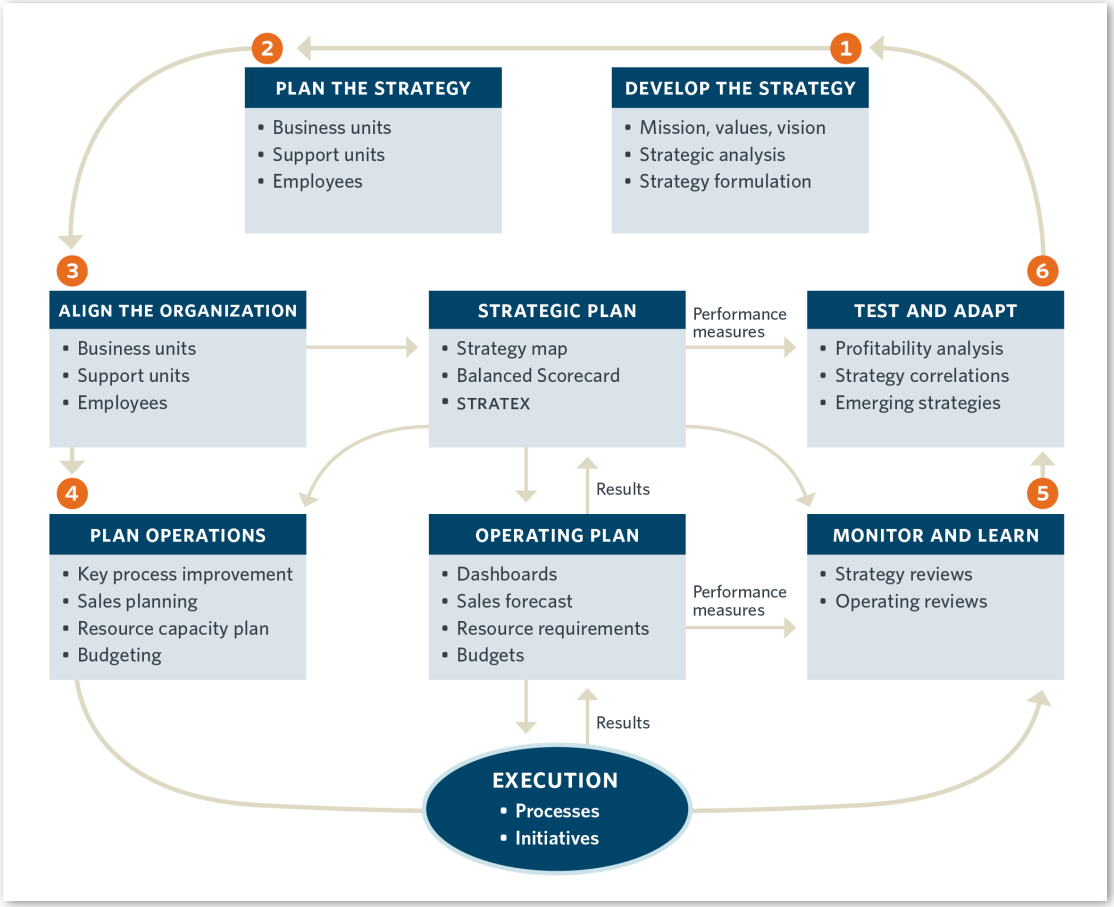
Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2uoAAEB

The Balanced Scorecard makes explicit the causal relationships between performance in several key nonfinancial dimensions ("perspectives")—including human capital, IT, operational processes, and customer processes—and the organization's ultimate outcome, financial performance.

There are two primary tools in the BSC approach. The *scorecard* itself is the document that tracks the metrics, targets, and actual performance data for all strategic objectives within each perspective on the strategy map. The *strategy map* is a one-page schematic depiction of the strategy and cause-and-effect relationships between the performance perspectives. It also shows the key strategic objectives that make up each performance perspective and how they affect performance in other perspectives. Many organizations develop an enterprise-level strategy map as well as strategy maps for each division, unit, and department, whose objectives "roll up" to the high-level enterprise map. Organizations typically have an enterprise-level scorecard that cascades down to lower-level business- and support-unit scorecards. That way, performance at each level "rolls up" to the organization's total performance.

Through their ongoing research and work with organizations, Kaplan and Norton developed a management system built on the BSC that links strategy and operations. The system, a closed loop, consists of six stages: develop the strategy, plan the strategy, align the organization (through strategy maps, communications, and incentives linked to strategic goals), plan operations (e.g., process-management dashboards, forecasting, resource-capacity planning), monitor and learn, and test and adapt the strategy.[48] Execution takes place once the organization has been aligned and operations have been planned (**Figure 5**). It is a constant within a cycle of planning, monitoring, and revising the strategy.

FIGURE 5 The Management System: Linking Strategy to Operations



Source: Reprinted from *The Execution Premium: Linking Strategy to Operations for Competitive Advantage* by Robert S. Kaplan and David P. Norton. Harvard Business Review Press, Boston, MA, 2008, p. 8. Copyright © 2008 by the Harvard Business Publishing Corporation; all rights reserved.

The Kaplan-Norton strategy management system is among the few holistic models that link strategy development with execution: aligning structures, people, and processes; dedicating resources for strategic initiatives separate and apart from operational needs; creating metrics and governance systems for integrating strategy and operations; and monitoring, learning, and adapting both strategy and operations in tandem.

Specifically, the system calls for establishing a governance body known as the Office of Strategy Management, which serves as architect, process owner, and integrator for the strategy process (that is, the formulation, execution, and revision of strategy). This structure extends its tentacles throughout the enterprise to ensure not only that strategy is operationalized but also that everyone remains aligned with it.

Strategic "themes"—components of the overall strategy—serve as the building blocks of the strategy map, permeating the performance dimensions (scorecard perspectives): the people and process, operations, customer, and financial. In this way, they provide a "subarchitecture within the strategy map to support the boundaryless [cross-functional] approach necessary for successful strategy execution." Strategic objectives help clarify each group's or process's relationship to strategy. Cross-functional teams are given ownership of these themes to ensure coordination in execution across the enterprise.

Kaplan and Norton's system also calls for establishing a budget independent of the capital expenditures (CapEx) and operational expenditures (OpEx) budgets—strategic expenditures,

or StratEx. Such a budget ensures that the resources allocated for strategic initiatives are not pillaged for day-to-day needs, as often happens. In this way, the investment in advancing strategy isn't compromised or undermined.

Kaplan and Norton recognized that executives routinely give strategy oversight short shrift. For instance, most management meetings focus disproportionately on operational issues. To ensure strategy monitoring gets the attention it deserves, the Kaplan-Norton strategy management system segregates time for strategic performance discussion and review from operational performance and review. The system lays out a coherent approach for continually revisiting and revising strategy and for adapting execution and linking strategy and operations. At many junctures, it establishes feedback loops for this iterative process.

One of the criticisms of the Kaplan-Norton framework, however, is that for all its richness in process, it is overly mechanistic. Unlike the congruence model, it doesn't address culture and leadership as intrinsic elements that can make or break execution. Kaplan and Norton acknowledge the importance of these elements; indeed, people and human capital constitute one of the four foundational dimensions of the Balanced Scorecard. But the model presumes that rigor in following this approach is sufficient for strategy execution. Kaplan and Norton do not delve into the processes, psychology, and strategies for building a culture aligned with the strategy and for developing and prioritizing leadership behavior.

Another key difference between the Kaplan-Norton system and the congruence model is that the former doesn't address the relative maturities of different businesses and strategies within an enterprise. Specifically, it doesn't distinguish between the different needs of exploiting and exploring business units—in straightforward areas (such as performance measurement) as well as in more complex areas, such as the ambidexterity (organizational and leadership) required to sustain strategy execution over the long haul.

3.3 The Role of Culture in Execution: The NUMMI Miracle

Culture can make or break strategy execution. Few stories demonstrate this as powerfully as the 1983 joint venture between General Motors and Toyota, known as NUMMI (New United Motors Manufacturing, Inc.).[49] NUMMI also illustrates how rapidly culture change can take root—even with the same employees—if the right training, structures, and incentives are in place and are aligned.

In 1983 Toyota signed a joint-venture agreement with General Motors to reopen GM's Fremont, California, auto assembly plant. The plant, closed after just 20 years of operation, had been the American automaker's worst performer. GM's aim was to add a small car (the Nova) to its line and, in the process, learn the celebrated Toyota production system. Toyota sought to enter the U.S. market and test whether American workers would embrace its production approach.

The odds against this experiment were high. Before the Fremont plant had been shuttered, worker-management relations were abysmal; thousands of grievances accompanied each new labor contract, and wildcat strikes were common. The plant was plagued with high rates of sick leave and absenteeism—nearly 20% for the latter. Alcoholism and drug abuse among workers were widespread. Some managers resorted to carrying a handgun for personal protection.

But within three years, NUMMI was producing the same number of cars as the Fremont plant had with half the workforce and of far greater quality. It was nearly 60% more efficient than a comparable GM plant in Framingham, Massachusetts. By nearly every measure of production, NUMMI had become GM's top plant. The total investment: $1.5 billion. GM's

systemwide investment for technologies to improve productivity and quality during that same period (1983–1986): more than $70 billion.

Even more astonishing is that NUMMI achieved these milestones with a largely unchanged workforce (85% of the workers were rehires from the original plant), the same union bargaining committee, and a flat wage structure.

The difference? Establishing a culture that in every way showed that success depended on people—and that expected people to be stewards of that success. Workers, in fact, were given greater responsibility for output.

Toyota's production system seeks to cut costs and maximize profit by reducing waste. Continuous quality improvement and safety are paramount. People are at the foundation of this system. NUMMI's HR philosophy was thus based on

- Recognizing the individual's worth and dignity
- Developing individual performance
- Developing team performance
- Improving the work environment

Mutual respect, fairness, and teamwork were core values, reinforced by a no-layoff policy, shared responsibility for quality, and an inclusive decision-making process.

Distinctions between management and employees were minimized as much as possible to emphasize fairness; there were no executive perks, for instance. Where the typical GM plant had up to six levels of hierarchy, NUMMI had three. Managers and workers understood that their futures depended on one another.

Toyota's management philosophy dictated respect for the employee for the production line to work efficiently. NUMMI's first president once told the VP of manufacturing to manage operations as if he "had no power"—relying instead on "listening, coaching, mentoring and gaining consensus."

Toyota invested heavily in training. It sent 400 trainers from Japan to the NUMMI plant to teach the production system, and it sent more than 600 NUMMI employees to Japan for classroom and on-the-job training.

The production system demanded greater interdependence, so teamwork was crucial. The pressure to perform came from this interdependence, not from threats or punishment. Each person belonged to a small multifunctional team. Members were responsible for designing their own work and rotated jobs within the team. This approach was meant to make team members think and act as though they were managing a business and help them see the contributions they were making to the organization's larger goals. Performance was transparent. Attendance boards and defect records, maintained by the teams, were posted prominently around the plant.

Each individual understood that quality was utmost and both an individual and a team responsibility. So important was identifying problems early that workers were encouraged to stop production at the first sign of a problem, regardless of the downtime costs incurred.

Under GM, there were 81 job categories at the plant; NUMMI had just three, and each one paid the same wage. People were not rewarded for learning new skills; that was part of the job. But employees were eligible to win a NUMMI-built car, and suggestions earned points toward merchandise purchases. In 1995, employee suggestions (contributed by 95% of the workforce) generated savings of more than $27 million.

Of NUMMI's stunning turnaround, the *Wall Street Journal* wrote, "NUMMI has managed to convert a crew of largely middle-aged, rabble-rousing former GM workers into a crack force that is beating the bumpers of Big Three plants in efficiency and product quality."

In 1997, Jamie Hresko, a GM production manager enrolled in Stanford's accelerated master's program by his employer, was compelled to uncover the secret to NUMMI's success. What was the plant doing that made its performance so remarkably better than that of the rest of GM? Was its success sustainable? Could its formula be replicated elsewhere at GM? He went undercover as a line worker to try to challenge these new norms. Despite his many efforts, he could not.

For example, when he fell behind, team members came to his aid. When he purposely violated regulations on error-proofing, cycle time, or material handling, he was quickly reprimanded—not by the team leader, but by team members. Peer pressure, he observed, was intense. People generally stayed beyond their shift to finish the job, not out of fear of being fired but out of a desire to protect the customer by ensuring a high-quality, safe product.

Over time, NUMMI's challenge was to motivate employees to pursue improvement—and not grow complacent with success. As one employee noted, "We still have problems . . . but we're working constantly to keep improving. We have a foundation for communication and teamwork, and that's what's important."

Toyota closed NUMMI in the spring of 2010. The year before, GM had pulled out of the partnership, ostensibly because it no longer needed the capacity. But the plant's quality record had declined by that point, and GM was on the verge of declaring bankruptcy. Toyota claimed the plant was no longer economically viable. Some observers suspect the decision had more to do with the fact that NUMMI was Toyota's only unionized workforce. NUMMI, after all, was the only plant in Toyota's history to get a zero-defect audit.[50]

4 KEY TERMS

ambidexterity The ability to simultaneously manage existing core businesses (*see* exploitation)—maintaining stability and overseeing continuous improvement—and to pursue new opportunities (*see* exploration)—specifically, nurturing experimentation and discontinuous change through innovation streams. Ambidexterity is critical to sustaining competitive advantage and to an organization's enduring success. Ambidexterity applies to an organization as well as its leaders.

congruence The alignment between strategy formulation and execution, as well as between and among the four organizational elements (or building blocks) by which strategy execution is carried out. All these relationships must be in harmony. (The four organizational elements are critical tasks, the formal organization [metrics, rewards, and organizational structure], skills and competencies, and culture.) Congruence enables the business to achieve its business design.

cultural inertia The institutionalized learning and common expectations that are reflected in the informal norms, values, social networks, and other elements of culture.

dynamic capabilities The ability to adapt, integrate, and reconfigure organizational skills and resources to respond to changing environments, including evolving markets, customer priorities, and technologies. Dynamic capabilities enable companies to leverage skills and assets to achieve the strategies called for by their emerging as well as mature businesses.

exploitation The optimization of efficiencies and the implementation of continuous improvements in an established business to extract maximum advantage; one of the two sides of *ambidexterity*. Organizations balance exploiting and exploring (*see* exploration) to sustain competitive advantage and long-term success.

exploration The fostering of experimentation and discontinuous change through innovation in pursuit of new business opportunities; the other side of ambidexterity (*see* exploitation), which organizations carry out to sustain competitive advantage and long-term success.

matrix structure A type of organizational structure that is organized around products as well as functions or geographies (or both). In such a structure, a sales manager for Product A would report to two people, the head of Product A and the company's head of sales. Common in large, global, multiproduct organizations.

milestone A progress check or assessment that represents a decision point. Appropriate for innovation streams or early-stage businesses, in which many variables (such as production time or overhead costs) are quickly changing or unpredictable. Milestones are also used when metrics are unavailable or could be counterproductive. Milestones are softer and often related to learning: for example, "Have we acquired a piece of knowledge yet?" "Have we tested it?"

opportunity gap A qualified assessment of the discrepancy between current results and those achievable by successfully pursuing a new opportunity, whether a new product, technology, service, or business model. The other trigger (*see* performance gap) for rethinking strategy formulation or execution.

performance gap A quantified shortfall between actual results and desired results. One of the triggers (*see* opportunity gap) for rethinking strategy formulation or execution.

performance metrics Measures of various business activities (or outcomes) that indicate whether an organization is meeting its operational or strategic goals. Examples include market share, customer profitability, revenues, percentage increase in sales over a period, service-call response time, number of items shipped on time.

Skunk Works An innovation project developed by a small group of people in a closed environment removed from the company's main operations. The project team is given special resources and works on an accelerated basis to develop what is generally a radical innovation. The term originated with a Lockheed project during World War II.

structural inertia The inertia, or resistance to change, fostered by the structural characteristics of an organization—its complexity and interdependence among structures, systems, and processes.

transformation A fundamental change in how business is done in order to adapt to major changes in the business environment, whether external (such as a disruptive technology) or internal (such as poor performance). Types of transformations include adopting a new organizational strategy, executing a turnaround (which may or may not include a restructuring), and implementing a new business process, such as a quality program or new IT platform.

willingness to pay A reflection of the maximum the customer thinks a product or service is worth. This criterion is considered in pricing products and services.

5 FOR FURTHER READING

Binns, Andy, J. Bruce Harreld, Charles O'Reilly III, and Michael L. Tushman. "The Art of Strategic Renewal." *MIT Sloan Management Review* 55, no. 2 (Winter 2014): 21–23.

Bossidy, Larry, Ram Charan, and Charles Burck. *Execution: The Discipline of Getting Things Done.* New York: Crown Business, 2002.

Gerstner, Louis V., Jr. *Who Says Elephants Can't Dance? Leading a Great Enterprise Through Dramatic Change*. New York: HarperCollins, 2003.

Govindarajan, Vijay, and Chris Trimble. *The Other Side of Innovation: Solving the Execution Challenge*. Boston: Harvard Business Review Press, 2010.

Heifetz, Ronald A. *Leadership Without Easy Answers.* Cambridge: Belknap Press of Harvard University Press, 1994.

Kaplan, Robert S., and David P. Norton. *Kaplan and Norton on Strategy Management, A BSR Reader*. Boston: Harvard Business Press Newsletters, 2010.

Kaplan, Robert S., and David P. Norton. "The Office of Strategy Management." *Harvard Business Review* 83, no. 10 (October 2005): 72–80.

Lafley, A. G., and Roger L. Martin. *Playing to Win: How Strategy Really Works.* Boston: Harvard Business Review Press, 2013.

Mankins, Michael C., and Richard Steele. "Turning Great Strategy into Great Performance." *Harvard Business Review* 83, no. 7 (July–August 2005): 64–72.

Nadler, David, and Michael L. Tushman. "Designing Organizations That Have Good Fit." In *Organizational Architecture*, edited by D. Nadler. San Francisco: Jossey-Bass, 1992.

Neilson, Gary L., Karla L. Martin, and Elizabeth Powers. "The Secrets to Successful Strategy Execution." *Harvard Business Review* 86, no. 6 (June 2008): 60–70.

O'Reilly, Charles A., III, and Jeffrey Pfeffer. *Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People*. Boston: Harvard Business School Press, 2000.

Pfeffer, Jeffrey, and Robert I. Sutton. "Knowing 'What' to Do Is Not Enough: Understanding the Knowing-Doing Gap." In *The Knowing-Doing Gap: How Smart Companies Turn Knowledge into Action,* by Jeffrey Pfeffer and Robert I. Sutton. Boston: Harvard Business School Press, 2007.

Porter, Michael E., et al. *HBR's 10 Must Reads on Strategy.* Boston: Harvard Business Review Press, 2011.

Simons, Robert L. *Seven Strategy Questions: A Simple Approach for Better Execution*. Boston: Harvard Business Review Press, 2010.

Teece, David J. *Dynamic Capabilities and Strategic Management: Organizing for Innovation and Growth.* Oxford: Oxford University Press, 2009.

Tushman, Michael L., and Charles A. O'Reilly III. *Winning Through Innovation*: *A Practical Guide to Leading Organizational Change and Renewal.* Boston: Harvard Business School Press, 2002.

6 ENDNOTES

1 Both surveys are cited in Yang Li, Sun Guohui, and Martin J. Eppler, "Making Strategy Work: A Literature Review on the Factors Influencing Strategy Implementation," Institute of Corporate Communication, University of Lugano (USI), ICA Working Paper 2/2008.

2 Donald N. Sull, "Closing the Gap Between Strategy and Execution," *MIT Sloan Management Review* 48, no. 4 (Summer 2007): 30–38.

3 Roger L. Martin, "The Big Lie of Strategic Planning," *Harvard Business Review* 92, no. 1/2 (January–February 2014): 78–84.

4 Michael L. Tushman and Charles A. O'Reilly III, *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 2002), p. 41.

5 Roger L. Martin, "The Execution Trap," *Harvard Business Review* 88, no. 7/8 (July–August 2010): 64–71.

6 Michael L. Tushman and Charles A. O'Reilly III, *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 2002), p. 28.

7 J. Bruce Harreld, Charles A. O'Reilly III, and Michael L. Tushman, "Dynamic Capabilities at IBM: Driving Strategy into Action," *California Management Review* 49, no. 4 (Summer 2007): 23.

8 The general source for this section is Charles A. O'Reilly III, J. Bruce Harreld, and Michael L. Tushman, "Organizational Ambidexterity: IBM and Emerging Business Opportunities," *California Management Review* 51, no. 4 (Summer 2009): 75–99.

9 Charles A. O'Reilly III, J. Bruce Harreld, and Michael L. Tushman, "Organizational Ambidexterity: IBM and Emerging Business Opportunities," *California Management Review* 51, no. 4 (Summer 2009): 80.

10 Michael L. Tushman and Charles A. O'Reilly III, *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 2002), pp. 9–14.

11 Knowledge@Wharton, "Trouble in Legoland: How Too Much Innovation Almost Destroyed the Toy Company," *Time,* July 12, 2013, http://business.time.com/2013/07/12/trouble-in-legoland-how-too-much-innovation-almost-destroyed-the-toy-company/, accessed March 2014.

12 Charles A. O'Reilly III, J. Bruce Harreld, and Michael L. Tushman, "Organizational Ambidexterity: IBM and Emerging Business Opportunities," *California Management Review* 51, no. 4 (Summer 2009): 83–84.

13 There have been numerous studies demonstrating this; two classic ones are Zimbardo's 1971 Stanford prison experiment, a simulation study of the psychology of imprisonment, and Yale University Professor Stanley Milgram's 1961 experiment on obedience to authority figures.

14 John P. Kotter, "Leading Change: Why Transformation Efforts Fail," *Harvard Business Review* 73, no. 2 (March–April 1995): 59–67.

15 John P. Kotter, "Leading Change: Why Transformation Efforts Fail," *Harvard Business Review* 73, no. 2 (March–April 1995): 59–67.

16 The congruence model was first described by David Nadler and Michael Tushman in "Designing Organizations That Have Good Fit," in *Organizational Architecture*, edited by D. Nadler (San Francisco: Jossey-Bass, 1992). Michael Tushman and Charles O'Reilly III have since refined it.

17 J. Bruce Harreld, Charles A. O'Reilly III, and Michael L. Tushman, "Dynamic Capabilities at IBM: Driving Strategy into Action," *California Management Review* 49, no. 4 (Summer 2007): 33.

18 Concepts from this and the following paragraph are from Michael L. Tushman and Charles A. O'Reilly III, *Winning Through Innovation, A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 2002).

19 Details come from Giovanni Gavetti, "Ducati," HBS No. 701-132 (Boston: Harvard Business School Publishing, 2001).

20 Michael Yoshino, Christopher A. Bartlett, and Perry L. Fagan, "Silvio Napoli at Schindler India (A)," HBS No. 303-086 (Boston: Harvard Business School Publishing, 2003); and Michael Yoshino and Perry L. Fagan, "Silvio Napoli at Schindler India (B)," HBS No. 302-054 (Boston: Harvard Business School Publishing, 2001).

21 Gary L. Neilson, Karla L. Martin, and Elizabeth Powers, "The Secrets to Successful Strategy Execution," *Harvard Business Review* 86, no. 6 (June 2008): 60–70; reprinted in Michael E. Porter et al., *HBR's 10 Must Reads on Strategy* (Boston: Harvard Business Review Press, 2011), pp. 147–148.

22 Michael L. Tushman, Wendy K. Smith, and Andy Binns, "The Ambidextrous CEO," *Harvard Business Review* 89, no. 6 (June 2011): 74–80.

23 Laurie L. Donald and J. Bruce Harreld, "Six Ways to Sink a Growth Initiative," *Harvard Business Review* 91, no. 7/8 (July–August 2013): 87.

24 Laurie L. Donald and J. Bruce Harreld, "Six Ways to Sink a Growth Initiative," *Harvard Business Review* 91, no. 7/8 (July–August 2013): 82–90.

25 Details come from Dennis Campbell, "Choose the Right Measures, Drive the Right Strategy," *Balanced Scorecard Report* (May–June 2006): 3–5.

26 Paul W. Marshall and Todd Thedinga, "Jamie Dimon and Bank One (A)," HBS No. 804-107 (Boston: Harvard Business School Publishing, 2003); and Paul W. Marshall and Todd Thedinga, "Jamie Dimon and Bank One (B)," HBS No. 804-108 (Boston: Harvard Business School Publishing, 2003).

27 Letter to Shareholders, February 2001, from Bank One 2000 annual report; cited in Paul W. Marshall and Todd Thedinga, "Jamie Dimon and Bank One (B)," HBS No. 804-108 (Boston: Harvard Business School Publishing, 2003), p. 14.

28 Letter to Shareholders, February 2001, from Bank One 2000 annual report; cited in Paul W. Marshall and Todd Thedinga, "Jamie Dimon and Bank One (B)," HBS No. 804-108 (Boston: Harvard Business School Publishing, 2003), p. 14.

29 Herminia Ibarra and Nicole Sackley, "Charlotte Beers at Ogilvy & Mather Worldwide (A)," HBS No. 495-031 (Boston: Harvard Business School Publishing, 1995).

30 Michael Yoshino, Christopher A. Bartlett, and Perry L. Fagan, "Silvio Napoli at Schindler India (A)," HBS No. 303-086 (Boston: Harvard Business School Publishing, 2003); and Michael Yoshino and Perry L. Fagan, "Silvio Napoli at Schindler India (B)," HBS No. 302-054 (Boston: Harvard Business School Publishing, 2001).

31 Tiziana Casciaro et al., "Leading Change at Simmons (B)," HBS No. 406-047 (Boston: Harvard Business School Publishing, 2005); also Tiziana Casciaro et al., "Leading Change at Simmons (A)," HBS No. 406-046, (Boston: Harvard Business School Publishing, 2005).

32 Christopher A. Bartlett, Brian J. Hall, and Nicole Benett, "GE's Imagination Breakthroughs: The Evo Project," HBS No. 907-048 (Boston: Harvard Business School Publishing, 2007).

33 Laurie L. Donald and J. Bruce Harreld, "Six Ways to Sink a Growth Initiative," *Harvard Business Review* 91, no. 7/8 (July–August 2013): 82–90.

34 Michael L. Tushman and Charles A. O'Reilly III, *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 2002), p. 31.

35 Michael L. Tushman and Charles A. O'Reilly III, *Winning Through Innovation, A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 2002), pp. 4–9.

36 This cursory example is adapted from J. Bruce Harreld, Charles A. O'Reilly III, and Michael L. Tushman, "Dynamic Capabilities at IBM: Driving Strategy into Action," *California Management Review* 49, no. 4 (Summer 2007): 21–43.

37 Tiziana Casciaro et al., "Leading Change at Simmons (B)," HBS No. 406-047 (Boston: Harvard Business School Publishing, 2005); also Tiziana Casciaro et al., "Leading Change at Simmons (A)," HBS No. 406-046, (Boston: Harvard Business School Publishing, 2005).

38 Dimon explained this in the discussion session following a presentation to an MBA class, Harvard Business School, Spring 2007.

39 Paul W. Marshall and Todd Thedinga, "Jamie Dimon and Bank One (A)," HBS No. 804-107 (Boston: Harvard Business School Publishing, 2003), p. 7; Dimon shared his view of this in the after-class discussion session cited in endnote 38.

40 Michael L. Tushman, Wendy K. Smith, and Andy Binns, "The Ambidextrous CEO," *Harvard Business Review* 89, no. 6 (June 2011): 74–80.

41 Christopher A. Bartlett, Brian J. Hall, and Nicole Benett, "GE's Imagination Breakthroughs: The Evo Project," HBS No. 907-048 (Boston: Harvard Business School Publishing, 2007).

42 Vijay Govindarajan and Chris Trimble, *The Other Side of Innovation: Solving the Execution Challenge* (Boston: Harvard Business Review Press, 2010).

43 Sources for this reading include Lynda M. Applegate, Robert Austin, and Elizabeth Collins, "IBM's Decade of Transformation: Turnaround to Growth," HBS No. 805-130 (Boston: Harvard Business School Publishing, 2005); J. Bruce Harreld, Charles A. O'Reilly III, and Michael L. Tushman, "Dynamic Capabilities at IBM: Driving Strategy into Action," *California Management Review* 49, no. 4 (Summer 2007): 21–43; and observations of the author, J. Bruce Harreld, a member of IBM's executive team during Gertsner's leadership.

44 Lynda M. Applegate, Robert Austin, and Elizabeth Collins, "IBM's Decade of Transformation: Turnaround to Growth," HBS No. 805-130 (Boston: Harvard Business School Publishing, 2005), p. 1.

45 Lynda M. Applegate, Robert Austin, and Elizabeth Collins, "IBM's Decade of Transformation: Turnaround to Growth," HBS No. 805-130 (Boston: Harvard Business School Publishing, 2005).

46 Quoted from a *Business Week* article, October 4, 1993, cited in J. Bruce Harreld, Charles A. O'Reilly III, and Michael L. Tushman, "Dynamic Capabilities at IBM: Driving Strategy into Action," C*alifornia Management Review* 49, no. 4 (Summer 2007): 26.

47 J. Bruce Harreld, Charles A. O'Reilly III, and Michael L. Tushman, "Dynamic Capabilities at IBM: Driving Strategy into Action," *California Management Review* 49, no. 4 (Summer 2007): 34.

48 Robert S. Kaplan and David P. Norton, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage* (Boston: Harvard Business Review Press, 2008); a preview of the system was described in Robert S. Kaplan and David P. Norton, "Mastering the Management System," *Harvard Business Review* 86, no. 1 (January 2008): 62–77.

49 This account is based on Charles A. O'Reilly III, "New United Motors Manufacturing, Inc. (NUMMI)," Stanford Graduate School of Business case no. HR11 (Stanford Graduate School of Business, 1998), via Harvard Business Publishing, http://www.hbsp.harvard.edu.

50 Richard Gonzales, "NUMMI Plant Closure Ends Toyota-GM Venture," *NPR*, April 1, 2010, http://www.npr.org/templates/story/story.php?storyId=125430405, accessed June 2014; John Shook, "Was NUMMI a Success?" Lean Enterprise Institute, September 14, 2009, https://www.lean.org/shook/displayobject.cfm?o=1133, accessed June 2014.

7 INDEX

alignment, 12–13
ambidexterity, 9, 29–31, 39
ambidextrous leadership, 26–27

Balanced Scorecard–based strategy management system, 34–36
Bank One Corporation, 18, 26
benchmarks, 17, 30
Blockbuster Video, 7
building blocks of congruence, 12, 14–25, 26, 27
Business Leadership Model (IBM), 31
business models, 5, 7, 13, 14

centralization, 8, 19, 28–29, 33
change management, 25
collaboration, 14, 18, 21, 22, 24, 31
compensation, 16, 18. *See also* rewards
competencies. *See* skills and competencies
congruence, 12, 39
congruence model, 3–4, 11–13, 26, 31, 36
control system, culture as, 23–25
cooperation, 11, 18, 22, 24
critical tasks, 12–13, 14–16, 21, 22
cross-functional teams, 6, 16, 35
cultural inertia, 6–7, 39
culture, and congruence model, 12–13, 22–25
culture change, 23, 24, 36
customer metrics, 17–18

decentralization, 24, 28–29
decision making, 8, 14, 22, 23, 24, 37
decision rights, 6, 11, 16
Ducati Motor Holding S.p.A., 14–15
dynamic capabilities, 10, 39

Eastman Kodak Company, 7
emerging business opportunities (EBOs), 31–33
employee engagement, 22
empowerment, 24, 25
execution, 3, 4–5, 8
exploitation, 9, 23, 27–28, 39
exploration, 9, 23, 27–28, 39

failure, 5–8, 11
formal organization, 12–13, 16–20, 24
formulation, 4–5, 12

GE (General Electric Company), 21, 27–28
General Motors Company (GM), 4, 8, 36–38
goals, 13, 16, 17, 18, 19, 21, 24, 34, 37
governance structures, 6, 16, 19, 35

hardware, for execution, 11, 12

IBM, 3–4, 12, 13, 17, 22, 28, 29–33
inability to execute, 8
incentive systems, 11, 16, 18, 19, 23, 24, 36
innovation, 3, 7, 9, 10, 13, 17, 18, 21, 23, 26–27, 28–29

Kaplan-Norton strategy management system, 34–36

leadership, and congruence model, 12
leadership, and degree of centralization, 28–29
leadership, and execution, 25–29
leadership ambidexterity, 26–27
leadership competencies, 21

management team skills, 20
matrix structure, 19–20, 39
metrics, 11, 12, 16, 17–18, 24, 28, 39
milestones, 16, 17, 32, 39
motivation, 11, 16, 22, 25

New United Motors Manufacturing, Inc. (NUMMI), 4, 23, 36–38

Ogilvy & Mather Worldwide, 19–20
opportunity gaps, 5, 13, 14, 26, 39
organizational elements of strategy, 12
organizational structure, 11, 12, 16, 19–20, 24, 28–29, 37
outsourcing, 14, 15, 16, 20

people factor, 11
performance, in congruence model, 13
performance-based culture, 18
performance engine for innovation, 29
performance gaps, 5, 13, 14, 26, 39
performance metrics, 11, 12, 16, 17–18, 24, 28, 39
processes, 3, 4, 6, 7, 11, 12, 14, 27, 28, 29, 30, 31, 34, 35

reporting lines, 16, 19, 24
rewards, 11, 12, 13, 16, 18, 20
risk taking, 18, 21, 23, 28
R. R. Donnelley & Sons Company, 7–8

sales team skills, 20–21
Schindler India Pvt. Ltd., 15–16, 20
Sears, Roebuck & Company, 7, 22
senior management team skills, 20
Simmons Bedding Company, 20–21, 24–25
skills and competencies, 12–13, 17, 20–22
Skunk Works, 28, 39
software, for execution, 11, 12
status quo, maintaining, 6–7, 23
strategic goals, 13, 17, 18, 19, 21, 34
strategic leadership forums, 33
strategy execution, 3, 4–5, 8
strategy formulation, 4–5
strategy map, 34, 35
structural inertia, 6–7, 40
success, and inertia, 6–7
systematic approach, 10–11

talent development, 21–22
Toyota Motor Corporation, 4, 36–38
transformation, 3, 4, 7, 25, 40

U.S. Navy, 22–23
urgency, sense of, 11, 25

value proposition, 7, 17, 23
vision, 13, 14, 25

walking the talk, 26
Walmart, 7, 22
willingness to pay, 14, 40